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The Indian Central Banking Enquiry Committee

1931

VOLUME IV

10E794

DISCUSSIONS WITH FOREIGN EXPERTS

CALCUTTA: GOVERNMENT OF INDIA
CENTRAL PUBLICATION BRANCH
1932

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PRESS COMMUNIQUE, DATED THE 6TH OCTOBER 1930, ISSUED BY THE GOVERNMENT OF INDIA.

In paragraph 5 of their Resolution No. F.-2(4)-F./29, dated the 22nd July 1929, the Government of India announced their intention of appointing a small body of Banking Experts selected either from England or other countries to assist the Indian Central Banking Enquiry Committee. The following gentlemen, who were invited to serve in this capacity have agreed to do so and will arrive in India about the middle of December 1930:—

(1) *Mr. G. C Cassels*, Manager of the Bank of Montreal, London. Assistant General Manager of the Bank of Montreal, Canada. Director of the Bank of Montreal (France), and Director of Barclay's Bank (Dominion, Colonial and Overseas). Deputy Chairman of Council of Institute of Bankers, London. Was member of the 'Committee on Currency and Foreign Exchanges after the War' (Cunliffee Committee) 1918. Represented Canada at the International Financial Conference, Brussels, 1920.

(2) *Mr. B. Currie*, Partner in Glyn, Mills & Company.

(3) *Dr. A. Friederich*, General Secretary of the Union Co-operative Society (Verbands der hessischen landwirtschaftlichen Genossenschaften) Darmstadt.

(4) *Dr. O. Jeidels*, A managing partner of the Berliner Handelsgesellschaft, Berlin, member of Board of German National Railway Co., and Director of various other Companies in Germany.

(5) *Mr. A. P. McDougall, C.B.E.*, Chairman and Managing Director of Midland Marts, Ltd., and Chairman of Midland Wool Groupers, Ltd., formerly President Co-operative Farms Trading Society in Scotland.

(6) *Dr. L. J. A. Trip*, Former Treasurer General at Department of Finance, Hague and former President of Bank of Java.

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DISCUSSIONS WITH FOREIGN BANKING EXPERTS.

27th January 1931.

MEMORANDUM ON COMMERCIAL BANKING

By Dr. O. Jeidels.

In the exact sense of the word Commercial Banking in India is done by the Exchange Banks as well as by those banks which are dealt with in this memorandum, but the Exchange Banks specialising more or less in the financing of the Foreign trade of the country are generally and also in the Banking Enquiry considered as a special group which I shall here deal with principally as far as they compete with the other banks. They do so in giving commercial and industrial and also up-country credits and they compete in taking deposits. While the Exchange Banks have their head office abroad and their capital in other currencies than rupees, there exists a link between them and Indian Joint Stock Banking through the majority ownership of the Allahabad Bank resting with the P. & O. Banking Corporation which, again, is controlled by the Chartered Bank of India, China and Australia.

Special agencies for commercial banking are the Imperial Bank, the Indian Joint Stock Banks and the Indigenous Banker.

Of the Imperial Bank and the Joint Stock Banks, it may be said that they do—with the exception of foreign exchange business, which is not allowed to the Imperial Bank and which seems to be only slightly cultivated by the few larger Joint Stock Banks—the regular banking business like English banks. As far as their business differs from the pattern it is mainly due to special Indian conditions, the limited bill and money market and the particular kind of merchandise serving as security in a country of prevailing agricultural production and export. The lack of a Central Banking Institution is not excessively felt, it seems, in the business of the Joint Stock Banks, as the Imperial Bank serves apparently as Bankers Bank to satisfaction although it is not quite convenient to use a Bankers Bank, which is at the same time the most important competitor. Very little or no use at all is made of bank acceptances; this may partly be due to the pattern of the English banks which formerly—but not any longer—left the acceptance business to special firms or institutions relying themselves for their working capital mainly on the vast resource of deposits; the principal reason lies, however, apparently in the limited moneymarket, in India. With a development of the moneymarket, perhaps after the formation of the Reserve Bank of India, the bank acceptance may come more in use and may widen the banking facilities offered by the commercial banks, especially for purposes where cheap and regular three months' credit is desirable.

The statement that the Imperial Bank and the Joint Stock Banks e the banking requirements more or less on the English pattern, means t they are not doing the industrial financing business nor any stock

exchange business which is left in England to the private banker, respectively the stock broker, and that these Indian banks are not doing the universal business on the Continental European or socalled German line. As there is no general agency in this country devoting its banking activities to the business done by the London private banker, it is no doubt worth the while to examine the question whether these commercial banks ought not to accept the German system of more universal banking. It would not necessitate their taking up stock brokerage business as well; this could remain in the present condition with a somewhat closer relation of the banks to this or that stockbrokers' firm which becomes useful when the banks take up industrial financing and issuing business. I shall deal with this problem, so closely connected with Industrial Finance and with the Investment Market, when these subjects are discussed.

From a mere banking point of view, the principal features of commercial banking in this country are two; the large amount invested in Government securities by the banks and the prominent position held among the banks' loans by those given against actual merchandise deposited either in the banks' go-downs or in the proper legal form with the customer. Both classes of banking investments signify a comparatively undeveloped banking system, but it cannot be doubted that under existing circumstances no change of policy is possible. The large investment in Government securities takes partly the place of marketable bills—rediscountable with a Central Banking Institution—in western countries, at least to some extent, and it will have to be seen whether and when with the Reserve Bank in existence there can be a change in the present method. The stimulation of a bill market to replace the Government Securities as practically sole liquid reserve, will have to a certain extent to compete with the habit of the Government, in no way illegitimate, to raise money in a market in which the cash resources of banks create a permanent demand for Treasury Bills. While at present no change in policy can be recommended, it is to be hoped, that the Reserve Bank, the early establishment of which is strongly supported by the experts, will cultivate with the banks a system of preferential investment in bills and the holding of Government Securities as an additional reserve.

With regard to the system of tangible security in merchandise for bank loans, I think matters must also for the present more or less remain as they stand. While with further development, with the increasing number of firms of undisputed standing the reluctance of the banks to loan against block-mortgage or without security, will by and by diminish, no steps must be taken to prematurely encourage the banks to be less cautious and conservative in granting credits. Competition among banks, in this field particularly, can be relied upon as a progressive element. An important factor in restricting the banks to the somewhat crude forms of loaning against perfectly tangible and saleable security is the legal position of the Indian customer. It is not in the reach of a banking expert to devise changes in that system, but it is to be recommended that this field be investigated by legal experts with a view to remove some of the objections against less stringent rules with regard to security. If agricultural credit other than against clear tangible security in quickly saleable merchandise is expected from the banks then especially the Land Alienation Act, has to be revised so as to protect legitimate bank loans.

To encourage more than at present the granting of unsecured bank loans, the commercial customer ought to accustom himself to divulge more freely to his banker his financial position. Secrecy about business affairs is much more cherished in India than in western countries and it is a great impediment to modern banking. Information about the customer seems to be at present gathered by the bankers more by listening to the rumours in the Bazaar, than from the customer's own statement. Some Indian Chamber of Commerce ought to study this problem seriously with the object of finding some system of collecting reliable information which suits the needs of the creditor and is as much as possible in conformity with Indian customs.

The Joint Stock Banks and the Imperial Bank are cultivating a kind of business which may seem unimportant from a western point of view, but has the advantage of encroaching upon the field of the moneylender; the loans against personal ornaments. It may help to accustom a part of the population to the use of banking facilities for borrowing and for saving.

An important problem is the use of vernaculars in the various fields of banking. Efforts are apparently being made to introduce and at the same time standardise the use of vernaculars. Perhaps the Imperial Bank sees its way to bring about in conference a joint attitude of the commercial banks in this matter which is also apt to accustom the population to make use of banks and indigenous bankers instead of less desirable credit agencies.

When studying the Commercial Banking System of a country, three main questions occur:—

1st. Are the banking facilities sufficiently extended?

2nd. Does the competitive position between the various kinds of banking institutions suit the needs of the country and does the prospective evolution call for interference?

3rd. Is the standard of banking throughout as high as necessary to protect the interests of the public and particularly of the depositor?

1. The question whether the banking facilities of India are sufficiently large for the economic needs of the country has in the Enquiry been almost unanimously answered in the negative by—the non-bankers. This criticism cannot be fully upheld from an expert point of view, as the decision cannot lie exclusively with the statement that demands for more or cheaper credit are not satisfied in many localities. The establishment of a bank or a branch has to depend equally on the prospect of soliciting deposits. Evidence to the Banking Enquiry contradict themselves in a significant way, some criticising that deposits received in one district are not used for the banking needs in the same district, and others complaining that localities not yielding themselves sufficient resources are not properly supplied with banking credits. That the country is not bounding with untapped banking possibilities is shown by the development of the deposits with the Imperial Bank. While this bank had under its agreement with the Government to open a great number of new branches in the last ten years, its deposits have during this period not increased accordingly, if at all, as the following figures of its deposits from the public for 1919 to 1928 show

(in lakhs of rupees): 6821—7802—6578—5701—7420—7671—7783—7390—7207—7130. The figures for Joint Stock Banks and the Exchange Banks, in spite of the establishment of new banks and branches are quite similar, and the total of bank deposits have developed as follows during the period: 20384—22630—22114—19541—19033—20253—20629—20859—20523—20879.

It is even doubtful whether or not some up-country places are rather overbanked. There is a danger in too many banks or branches competing in a locality as it leads the weaker banks to offer higher rates for deposits and accordingly to give loans at higher rates and increased risk.

The Imperial Bank has and the Reserve Bank will have a good insight in the proper geographical distribution of banking facilities, and the Reserve Bank should be able to exercise some influence in this direction. At the same time the practice of the Imperial Bank to establish sub-stations in less important places ought to be encouraged. The Imperial Bank and other Joint Stock Banks ought to study the advisability of attaching suitable Indigenous Bankers to their organisation; we shall revert to this.

2. The competitive position of the Imperial Bank, the Exchange Banks, the Indian Joint Stock Banks and the Indigenous Banker does in my opinion not call for outside interference. On the whole, free competition will for many years act as the best guide for progressive development. No interference by legislation or otherwise, beyond the educative influence of a Reserve Bank, ought to prevent to any extent the appearance of new and the disappearance of unsuccessful banks. A chance must be given to the fittest. Official assistance is given to some Joint Stock Banks in a few Indian States, but I do not recommend it for imitation, although it may not be unsuited for smaller independent districts. The Government balances should remain concentrated with the Imperial bank. They will anyhow, in future be administered by the Reserve Bank and in the meantime I doubt whether with the Imperial Bank the financial benefit of varying Government balances is not counterbalanced by the increased permanent expenditure connected with the services to Government.

The Imperial Bank in its present form and more so even in future, when it will be purely the biggest Indian Joint Stock Bank deserves and may expect a prosperous development. In another section of our discussions I would like to investigate, whether the bank's activity could or should not expand to cultivating sound methods of industrial finance. The other Joint Stock Banks generally are in my opinion bound to benefit, if the Imperial Bank can through its own successful career strengthen general confidence in Indian Banking. To give the Imperial Bank the right to deal in foreign exchange even previous to the automatic removal of the present restrictions, when the Reserve Bank comes into existence, is scarcely to be advocated, although the building up of a net of international connections would probably be beneficial under many aspects. Its present capacity as Banker's Bank, the Government business and the completion of the up-country organisation may not allow a further extension of the bank's sphere of activity, before the rather radical change in its constitution comes naturally with the appearance of the Reserve Bank.

The future development of the *Joint Stock Banks* with the exception of the small number of well established institutions seems less secure. Past unfavourable experience is not certain to have led to a thorough

change of system. There is no co-operation between Joint Stock Banks which could improve the standard, eliminate weaker elements and foster the combination of smaller banks to larger units. Almost all countries know besides such institutions which serve special joint purposes like Clearing House Associations, Banker's Institutes, etc., some organisation to further the interests of the profession, offering expert advice to the Government and endeavouring to uphold and improve the professional standard among the members. Such co-operation and the creation of a Joint Stock Banker's Association is strongly recommended. It will be helpful to safeguard the members' interests when the Reserve Bank will establish a policy of classification among those banks with which it intends to do business. A valuable pattern is supplied by the Banker's Guilds in China which organise and educate their own members and keep in touch with other groups. Some material is available with the experts. No obstacles should be put in the way of mergers between smaller Joint Stock Banks by stamp duties or taxation, and if such obstacles exist they should be removed.

One of the most important problems of Commercial Banking in this country is the future position of the *Indigenous* Banker. Can he be linked up to the rest of the banking system? The Banking Enquiry has brought to light much interesting material on the Indigenous Banker in the various provinces, but it calls for further penetration and the experts suggest it for special discussion, eventually in conjunction with some Commercial Banks. There may be several ways, how the Indigenous Banker can be linked up more closely to the banking system. He may for himself and others with which he already does business, form a joint stock bank. The Imperial Bank or other Joint Stock Banks may affiliate him as agents for collecting deposits or giving loans under supervision. This position may be strengthened by a rule to be established by the future Reserve Bank, which, if he complies to it, would create a distinguished rank of indigenous bankers. All these possibilities ought to be further examined and discussed between Committee and experts. The future Reserve Bank will have an important influence on the development or decay of this banking agency and it may here find an instrument in expanding the habit of commercial bills.

The Co-operative Credit Institutions have tried to build up a banking business among its members in the familiar triple organisation of local societies, district or central banks or banking unions and the provincial apex banks. The competition of the co-operative movement with ordinary banking as well as with Indigenous Bankers is not liable to create much sympathy for the movement just in banking circles and particularly so where the co-operative credit organisations appeal also to outside depositors who are not members. The co-operative movement in spite of imperfections and of unavoidable setbacks deserves every possible assistance from all quarters, because there is no better instrument for raising the level of the agriculturist of this country than the co-operative effort, and a strong appeal to the banking interests of the country to assist this movement seems not at all out of place. The Imperial Bank particularly ought to continue and to increase its endeavours to supplement the present organisation of co-operative credit with expert advice in a business spirit and with financial assistance. It may be a source of profitable business

for the Imperial Bank. A well-known German Bank 25 years ago established itself in a special department which is quite profitable, as an apex. bank to one of the two large co-operative institutions of the country. A publication by the Dresdner Bank is available.

3. With regard to legislation to protect the public against abuse on the part of dishonest or incompetent bank management a general observation must precede the examination of actual suggestions.

The principle followed in some countries, *e.g.*, in Germany, of regulating all stock companies, banking and otherwise, in one company law, has great merits. The protection of the shareholder includes automatically and efficiently the protection of the creditor. The company law can regulate for all stock companies the minimum capital, the provision to put up new capital in real cash, the duties and rights of the Board, rules on the distribution of profits and the formation of reserve funds etc. A special legislation is rarely a real protection; if it is evaded and if it does not prevent bank failure and mismanagement, it is liable to reduce in the population the respect of law. In the U. S. A. in every crisis as again in the present one, hundreds of smaller Joint Stock Banks fail with the effect of shattering general confidence. All those banks comply with the numerous legal provisions, have their balance sheets audited and publish a weekly statement. Their failure is attributed by some largely to a special legislation which attempts to prevent a domination of the country by large branch banks-sitting in the big centres of the country, the popularly so-called money-trust, and which is meant to encourage the development of local economic resources. With these purposes the American Law partly federal, partly state laws, forbids the opening of branches interstate and, with the exception of about 10 states, also inside of a state; preventing thereby a sound distribution of risks.

Of the proposals made during the Banking Enquiry, which has been particularly fertile in suggestions of this kind. the following deserve most sympathy :—

(*a*) Who should be entitled to use the name of 'Bank' or 'Banker'? A proper definition seems very difficult and rather unnecessary in a country where the majority of the population is illiterate and more familiar with the moneylender than with the banker. A compulsory separation of trade from banking in order to give banking a privileged position may in future, but seems not at present, a policy to be recommended. and to distinguish a banker by a license system is at least at present a doubtful measure.

(*b*) Minimum capital for Joint Stock Banks.—As obvious at first sight. such prescription is difficult and ineffective in practice. It would have to be provincial regulation because in some districts the minimum can be lower than in others, but even the province will prove to be too large a legislative unit. A capital of one lakh may be used to establish a sound little banking institution, while five lakhs of capital may be utterly mismanaged. What seems really urgent is to abolish the abuse of a large authorised and very small subscribed and a still smaller paid-up capital. It is found and certainly sometimes meant to mis-lead the public. It would be advisable to give authority to the registrar of companies to inhibit this abuse.

(*c*) Auditing of balance sheets. Inside of the provisions of Company Law, making the audit compulsory in India like in most but not all

countries, there is a great variety of possibilities to ensure competent auditing, and the experts will give advice in a special memorandum based mostly on English, American and Canadian experience. This is one of the matters in which the proposed Joint Stock Banker's Association can do helpful service to the profession. Auditing is much more efficient if the selection of auditors is backed by the common interest of a community desiring to improve the professional standard.

(*d*) *Publicity.* The future Reserve Bank will be the best authority to rule on a standard of such publications as it is done in many foreign countries. It requires, of course, an education of the public to read such statements and the best judge will be again the Reserve Bank.

Attention may be drawn, without making it a formal suggestion, to a German form of Joint Stock Company which is used there to a certain extent by bankers. A short memorandum is submitted on the institution of what may be called 'in translation' Limited Companies in partnership with unlimited liability of the partners'. The 'Kommanditgesellschaft auf aktien' is a joint stock company where at least one person, who also manages the company but does not necessarily hold shares, is personally liable to the creditors of the company. This or these persons are so-to-say the partners of the community of stockholders; their position towards the stockholders is therefore more independent than that of a manager or managing director; his income consists in a share of the profits. The form had been almost abandoned in Germany but has come in use again more recently with banks because it naturally increases the confidence of the depositors. One could imagine that this legal form has some attraction with smaller joint stock banks in this country, because it removes the depositors' apprehension that the directors may, as has unfortunately been the case occasionally, manage the bank unduly in their own interest, and it may appeal to the indigenous bankers to form a joint stock company in which they will occupy an independent position justified by their personal liability. Every company law ought to offer various models of Joint Stock Companies for selection, and this may be one among others.

Mr. Khaitan: Would you kindly tell us whether in Germany banks, which have got their head offices abroad, do penetrate into the interior and compete with German banks?

Dr. Jeidels: We have practically no foreign banks.

Mr. Khaitan: Not even at the Ports?

Dr. Jeidels: No.

Mr. Khaitan: It follows that all the commercial banking in Germany is done by German banks?

Dr. Jeidels: In order to arrive at a proper comparison you must take into consideration the special conditions obtaining in Germany at present. The country during the War lost practically its entire liquid capital and therefore it is using at present to a very large extent foreign capital. If foreign banks grant facilities to German firms they do not administer this service in the country itself. The business is done from their head offices in other countries, *e.g.*, New York, London, etc.

Mr. Khaitan: So the position is that the foreign banks have not got their offices in Germany but that there are connections between German

banks and foreign banks in other countries to facilitate commercial banking.

Dr. Jeidels: Yes.

Mr. Khaitan: Is that connection more in the sphere of international trade or in the sphere of national trade?

Dr. Jeidels: As far as credits by foreign banks to German commercial parties are concerned, they are mostly international credits. But the bulk of the foreign credit given to German commercial parties is not given directly to the commercial parties but through the German banks.

Mr. Khaitan: Has there been any instance in Germany of a foreign bank establishing its branch in the country?

Dr. Jeidels: Excluding the period of military occupation, I do not think there are foreign banks working in the country.

Mr. Buckley: The Chartered Bank has a branch.—There may be one or two instances.

Mr. Khaitan: Do the Hongkong and Shanghai Bank and the Barclays Bank receive deposits from the nationals of the country?

Dr. Jeidels: I do not know to what extent they actually do.

Chairman: Mr. Cassels, do you think you will be able to tell us as to whether the deposits in the Barclays Bank of Germany are from Germans or from other foreigners who are trading in Germany?

Mr. Cassels: I think from both. There is no restriction in law.

Mr. Shanmukham Chetty: You refer to the period of military occupation in certain districts of Germany. During that period some foreign banks were established there.

Dr. Jeidels: Yes.

Mr. Shanmukham Chetty: After the military occupation ceased, were these branches taken away?

Dr. Jeidels: Yes.

Chariman: Is Mr. Chetty correct in assuming that these foreign banks or their branches established in the occupied territory had as their clients the foreigners who came to the occupied territory?

Dr. Jeidels: Not exclusively, I think.

Chairman: Will it be correct for us to take that most of the branches of foreign banks had to go out as the result of competition?

Dr. Jeidels: Yes, they could not stand the competition, when the occupation ceased.

Mr. Manu Subedar: After the military occupation ceased the German banks established themselves back again in those territories.

Dr. Jeidels: They existed even during the occupation period.

Mr. Manu Subedar: Has German currency and credit regained the previous position?

Dr. Jeidels: Yes, the banking facilities available through German banks are sufficiently ample to make it possible to dispense with direct foreign banking facilities for trade.

Mr. Manu Subedar: When German credit and currency is normal, would you find it very surprising if a German went to a foreign bank which offered the same facilities as a bank of the country?

Dr. Jeidels: Not at all.

Mr. Manu Subedar: Do you not think that a patriotic German would be impelled by his sentiments to patronise a German bank rather than go to a foreign bank?

Dr. Jeidels: There is no question of patriotic sentiments in selecting a bank.

Mr. Manu Subedar: You spoke of the rate of deposits in Barclays Bank being a little more than the other banks.

Dr. Jeidels: If it were higher it would attract deposits.

Mr. Manu Subedar: Would they have attracted deposits if the rate is the same?

Dr. Jeidels: Possibly.

Mr. Manu Subedar: Have you in Germany any institutions in which controlling interests have been acquired by others?

Dr. Jeidels: There are a few banks in Germany, the shares of which belong to foreign banks.

Mr. Manu Subedar: But not controlling interests?

Dr. Jeidels: Yes.

Mr. Manu Subedar: You welcome in Germany the acquisition of your institutions by other concerns?

Dr. Jeidels: From the point of view of the banker, this is not very welcome.

Mr. Manu Subedar: Has the phenomenon of acquiring interests by foreigners occurred in Germany?

Dr. Jeidels: Internal change of hands has occurred, but not, as far as I remember, by foreigners.

Mr. Manu Subedar: If it occurred, would the public opinion in Germany regard it with uneasiness?

Dr. Jeidels: I think the German public opinion object very much to the change of hands in joint stock companies' majority holdings.

Mr. Manu Subedar: How would you regard from the point of view of India that a very flourishing institution like the Allahabad Bank should be acquired by foreigners?

Dr. Jeidels: I see no objection, if the parties who acquire majority ownership of the bank are efficient and if they are not interested in crippling the bank. Increased competition is increased efficiency.

Mr. Manu Subedar: The Allahabad Bank was working here as an independent institution. This Bank has been acquired by another bank The competition is not increased but diminished—

Dr. Jeidels: The Allahabad Bank competes much more with the Imperial Bank and the Indian joint stock banks with the Exchange banks. Competition is neither increased nor diminished.

Mr. Manu Subedar: The Lloyd's Bank is one of the biggest banks in the world. If it wanted to acquire the Imperial Bank, it could do so?

Dr. Jeidels: I do not know.

Mr. Manu Subedar: Supposing they wanted to acquire the Imperial Bank, would you welcome that from the point of view of India?

Dr. Jeidels: If the Imperial Bank would be acquired by speculative parties, Indian or foreign, I would consider it very unfortunate.

Mr. Manu Subedar: With regard to the branches of foreign banks which are established in Germany do you know whether the permission of the Minister has to be taken?

Dr. Jeidels: I have written a paper on the subject which circulates with a list of minor provisions as they exist in the single states. There is at present no Federal legislation on the matter.

Chairman: We may reserve that discussion and deal with it in connection with the question of foreign banks.

Lala Harkishen Lal: Suppose I buy goods in America. What would be your advice how to transmit my money to America?

Dr. Jeidels: You have to buy dollars. You can buy as many dollars as you like. You can sell your rupees. You can establish direct banking connection in New York if they know you.

Lala Harkishen Lal: You have said that the Commercial Bank lends money on personal security which means the credit of the company or of the partnership or of the individual as the case may be. Then you have said that the Commercial Bank may lend money on stock exchange securities. Then you have said the Commercial Bank might lend money occasionally on mortgages and you have told me that it might do remittance business. How would the Auditor value the securities—whether they are good enough?

Dr. Jeidels: That depends firstly on the judgment of the management. The Auditor does not manage the company. He will make his remarks after he has gone into the loans and investigated how many are secured and by what kind of security. It is not the Auditor's business to form a judgment on the quality of the securities. He cannot replace the judgment of the management. He would merely comment upon it.

Lala Harkishen Lal: The Auditor is not required to value the securities?

Dr. Jeidels: We have no compulsory auditing in Germany. It is optional with the Board. The Board is responsible not for appointing Auditors but for the balance sheet. They may or may not be audited.

Lala Harkishen Lal: In India all balance-sheet must be audited.

Dr. Jeidels: In Germany balance-sheets of banks are generally not audited by outside auditors, because the banks have their own auditing department.

Lala Harkishen Lal: A good deal is said in India about soundness and liquidity. How is the soundness of a bank judged in Germany by the public or by the critic?

Dr. Jeidels: The first authority is the management. The second authority is the Board, and the third authority are the shareholders. I do not know of any other authority for judging the soundness of a bank unless you may say: the client.

Lala Harkishen Lal: How is liquidity guaranteed or assured?

Dr. Jeidels: While in this country Government securities formed a principal liquid investment, in western countries, with an established bill market and a Central Banking institution, this liquidity is supplied by investment in bills, principally.

Lala Harikishen Lal: The cash in the till is liquid?

Dr. Jeidels: If they are good rupees, yes.

Lala Harkishen Lal: I thought it was gold there. The cash in the till is liquid. The bills—3 months, 6 months—are considered to be liquid?

Dr. Jeidels: What is to be considered real liquid depends very much on the existence of a Central Banking Institution.

Lala Harkishen Lal: Leaving that aside, you will call the bills held by the Imperial Bank as liquid?

Dr. Jeidels: I suppose so. They can raise emergency currency on it.

Lala Harkishen Lal: It may be bad water, but after all it is liquid?

Dr. Jeidels: Whether it is liquid depends on the possibility of its being rediscounted or similar arrangements.

Lala Harkishen Lal: Liquid is liquid whether it is stinking or putrid water?

Dr. Jeidels: No, not at all.

Lala Harkishen Lal: Government securities are liquid?

Dr. Jeidels: They are not in every case. They are liquid for the Joint Stock Banks which rely on the Imperial Bank giving advances against them. If you read the memorandum you will find observations on the various classes of liquid assets. Of course, the rupee, the gold, the cash is the most liquid. Then come the bills, commercial bills if there is a central banking institution. Then there come certain kinds of Government securities. To make bills a liquid asset, it is necessary that there exists some body who is prepared to re-discount them. Government paper is liquid provided you find somebody to advance money on it. Securities, if they are saleable may be a fairly liquid investment. If they are not saleable they are an unfit investment. Debentures of Joint Stock Companies, come a little further down in the list, but they may still be counted as fairly liquid. They are semi-liquid. All self-liquidating securities, and all self-liquidating loans, loans against jute, for instance, which is on its way to Calcutta—are also liquid. They are perhaps one of the best liquid assets because you do not have to liquidate them,—they liquidate themselves.

Lala Harkishen Lal: Advances made in this country against produce are also liquid?

Dr. Jeidels: It depends. It may be difficult at times to sell it.

Lala Harkishen Lal: In a country like India, where the Government paper finds difficulty in selling, where the bills are very few and there is no re-discount market ready, where these goods on which we advance are speculative,—sometimes they are saleable and sometimes they are not saleable, sometimes they go up in price and sometimes they do not go up in price—and also debentures if issued by Joint Stock Companies do not find a ready market, what should the bank do to find liquid assets?

Dr. Jeidels: If there is nothing else, then you should hold more cash.

Lala Harkishen Lal: How do you advise that the banks in India should keep their cash balance? Would you fix any limit, whether they should keep 25 per cent or 20 per cent or 15 per cent of the deposits?

Dr. Jeidels: It depends very much on the nature of the deposits and on the nature of the loans outstanding,—whether they are largely of a self-liquidating nature.

Lala Harkishen Lal: It means that we should use our own judgment?

Dr. Jeidels: If you put the question quite logically, I think I ought to refer to what we have to say on the advisability and even necessity of a Central Bank.

Lala Harkishen Lal: What is the interest now being paid to depositors by the German Banks?

Dr. Jeidels: It is in accordance with the bank rate of the Central Banking Institution.

Lala Harkishen Lal: There is a connection between the bank rate and the deposit rate for short term?

Dr. Jeidels: Yes. Short-term includes deposit to be withdrawn without notice. We generally make it 1, 2, 3 or 6 months. We generally take a fixed term in which case there is no question of notice. At present the bank rate is 5 per cent. If I remember correctly, we then pay 3 per cent. on accounts on which no commission is charged and 4 per cent. on accounts on which commission is charged. For longer than one to 6 months' deposits we pay up to the bank rate, even the bank rate and eventually above, if it is for a particular term which justifies it. For loans we normally charge at a margin against bank rate of 2 per cent. This margin represents one-half per cent. commission for 3 months and 1 per cent per annum above bank rate. We have no deposits for 2 and 3 years—or at least very seldom. The time for which deposits are received, generally does not exceed six months, normal commercial bills are for 3 months, sometimes 6 months, particularly in international trade; but in domestic trade you can say it is almost exclusively up to 3 months.

Lala Harkishen Lal: You have said that the Commercial Bank might lend money on mortgages?

Dr. Jeidels: No. It might lend money and take mortgage as security. We do not loan on mortgage. Lending against mortgage does not mean that you give the money as mortgage. The customer receives a short term loan and gives a mortgage as security.

Lala Harkishen Lal: We have a system here by which title deeds are deposited. The title deeds are really the proprietary title deeds. You mean, the customer gets a loan secured by deposit of title deed?

Dr. Jeidels: It must be bills.

Lala Harkishen Lal: If a concern issues debentures and the debentures were really good, then will you advise advancing money on the security of these debentures?

Dr. Jeidels: Yes, I see no objection.

Lala Harkishen Lal: A good debenture ought to be a good security I mean for these bills, if the debentures are really marketable?

Dr. Jeidels: I really do not see the link between a bill and a debenture.

Lala Harkishen Lal: A loan on a promissory note?

Dr. Jeidels: You always have these promissory notes in your mind. I understand, that if you give somebody a loan, you wish to be sure and have some document, which is the promissory note. It is an instrument of credit. As a matter of fact the customer gets a loan; now, if he offers you a good debenture as security, why should you not take it?

Lala Harkishen Lal: I want to ask you one question which really has been giving us trouble elsewhere—not here—and that is the mode of recovery. When it becomes a bad debt or the debt is not paid in due time, how are you going to recover?

Dr. Jeidels: It depends on the security which you have in hand. If you have a security which you can realise, which you can sell and turn into money, then the matter is comparatively easy. If it is a less liquid merchandise, then it becomes less easy, to realise the security. And if it is a mortgage, then, of course, it is still more difficult. In this case, if the debtor goes into bankruptcy, his estate is put up for auction and the bank has to wait till somebody will buy the estate and pay the banker. Therefore, if a mortgage deed is taken by a bank as security, it certainly ought to be a mortgage deed of indubitable value. Even then only a limited amount with a margin ought to be given on that mortgage. The banker should, when accepting a security, always ask himself: if I have to realise the security, do I get my money or do I have to buy in the security for myself?

Lala Harkishen Lal: That is at the stage before the loan is made. You are giving advice how the loans are to be made. Now, you have given the loan. I have been carrying on banking on your advice and I want to recover my loan. I want your advice in that matter. Will you tell me how they do it in Germany?

Dr. Jeidels: My advice has been taken, it seems to me, when the child has fallen into the water, to get it out. What you have to do then as a banker, is to consult exclusively your own position. I think that is the only answer I can give. You have not to consider the general economic condition of the country nor the situation of your customer, but only yourself

Lala Harkishen Lal: I am asking this, because the question of recovery in India is a very big question in banking and in a local report we have found that in the rate of interest that the moneylender charges he takes into consideration the percentage of recovery and also the cost of recovery. The methods here are very tortuous and I want your opinion

to move the Legislature hereafter, if possible, to facilitate the method of recovery in this country. That is why I am asking this question. Recovery is very difficult in this country. When a suit is brought for the recovery of money the bank finds, that the Judge reduces the rate of interest. Sometimes he says that the money should be paid in three years without interest. We get that kind of order, and I want to know whether similar things happen in other countries?

Dr. Jeidels: I do not think we ought to take the moneylending business into account.

Lala Harkishen Lal: What we are speaking of is banking business and as to what are the rates of interest charged. I am telling you from my own experience that even where we charge a moderate rate of interest, the Judge might rule that we ought not to get any future interest. The Judge might also rule that we should get a smaller rate of interest. He treats us therefore exactly as he would treat a moneylender. I want to know whether the banks in your country are treated in that way?

Dr. Jeidels: In the memorandum submitted I deal with this subject, and I would suggest that you read it as it contains a suggestion. I deal extensively with the difficulties of the banker in this country to grant loans against other than easily realisable security and I discuss in the memo. what these difficulties are.

Sir Hugh Cocke: Yesterday you said in discussing the future of the private or indigenous banker that there were four courses that might take place. In the first place, he might go into voluntary or involuntary liquidation; he might be bought up by a public bank; he might possibly go into partnership with the bank, or he might carry on and survive. What I should like to know, having regard to the future of Indian banking, is which of those courses, if any, is likely to mature in India?

Dr. Jeidels: This question is most interesting and very important, but I have no answer to offer. It is no use to give you an answer which is not definite.

Sir Hugh Cocke: It is a matter of evolution and there is no suggestion you can make?

Dr. Jeidels: I really could not, but I would like to ask my co-experts whether they have an opinion on it. It is not only my own opinion which ought to be solicited.

Dr. Trip: I got the impression from some of the provincial reports, especially the Report of the Central Areas Committee, that the position of Indigenous banking in that part of the country is weakening practically at present owing to the competition caused by the spread of commercial banking. It is stated in some of the reports that his position is weakening at present.

Sir Hugh Cocke: That is the process of natural evolution. There is nothing definite you can suggest to this Committee which we can recommend in the way of legislation which would bring that about more quickly? Many of the questions put today have been in the nature of queries, but they do not seem to have been put with the object of improving Indian banking. This is a question on which we want suggestions, if there are any, to be made as to what extent and in what manner the indigenous banker can be improved or absorbed, and thereby the banking system of the country improved?

Dr. Jeidels: My own opinion on the subject is to leave the development to its own course, and not to do anything against nor to do anything particularly in favour of the indigenous bankers, so that he finds his place just like private bankers in the rest of the world have found it. This is only my personal opinion.

Dr. Trip: I cannot say that I am of a different opinion because I do not know enough about it. If it were feasible, I think it would really be a very good solution if some measures could be found in order to bring him closer to the commercial banking community, as I said already yesterday, but what makes the question so difficult to answer is that the indigenous banker, if I am not mistaken, is not purely a banker. He is a banker and a trader, and so the first question which would arise in my opinion—but of course we have not enough knowledge about him to give a decisive opinion about that,—is whether you can make him exclusively a banker. If that could be done, I think it would be very advisable to link him up to commercial banking, and I gather from the evidence given especially by Mr. MacDonald, that some link already exists between the indigenous banker and the Imperial Bank. On behalf of the Imperial Bank they cash cheques and bills and make payments and if in particular Mr. Macdonald says from experience that this business relation works favourably, I cannot at this moment see a real objection against extending that process. I think it would be very much in the interests of banking in this country if that process could be extended.

Sir Hugh Cocke: One suggestion that has been made to us is that the indigenous banker should be compelled to file some returns with the Registrar to show what his figures are. That would give publicity to his standing. At present nobody knows whether he is very strong or very weak, and that is the suggestion that has been put to us. From what you have seen of the banking conditions, do you consider that it would be feasible to ask him to file a return?

Dr. Trip: I should like to leave it to him whether he would like to be licensed or not. If his position is of that kind that he would like to become a banker in the proper sense of the term and be linked up to the general banking community, then of course he could apply for a license. The conditions for obtaining that license could be made known to him and he could decide whether he would be prepared to accept them or not.

Mr. Devadhar: When in Germany an indigenous banker found that he was being displaced by other bankers, did he expect Government to give him any consideration at all. Were his services employed by other banks in places where it was not possible to open branches?

Dr. Jeidels: Yes, sometimes cashing cheques. Every banker in Germany has at least one banking account in the capital of the country. It is quite different from here. I think I am not making an exaggerated statement when I say that in a country like Germany, which is in this regard not different from other Western countries there is not one single banker in the provinces who does not hold an account with at least one of the big banks in the capital. It strengthens their position if they hold a banking account and thereby keep up a connection.

Mr. Khaitan: You think that if indigenous bankers have a direct account with banks their position would be strengthened?

Dr. Jeidels: I think so.

Mr. Devadhar: In your opinion that would be a procedure which should be adopted to bring him into line with the general banking system?

Dr. Jeidels: I think it would be a really good start.

Mr. Devadhar: One more question which relates to another department, but I put it now. Supposing a banker who is doing both banking as well as trading has to be selected as one of the agents for the management of a branch of a bank. If there be a co-operative institution doing banking there, would the management of that bank think of choosing either the co-operative institution or the indigenous banker?

Mr. Jeidels: They may, if they do not intend to open a branch, try to get a hold in that place by establishing some connection. It depends on circumstances. I should say that the indigenous banker is better fitted for it because he is a trained banker.

Mr. Devadhar: One more question. Has the indigenous banker, having seen the position that has been created for him, begun to appreciate the value of education and modern methods?

Dr. Jeidels: I do not think that technically the private banker is inferior to a larger banker. The technique of banking is no secret; it is not even very difficult and he can employ somebody who has had a training in a large bank. There may be a little inferiority in a technical sense but this is made up for by the more individual style of business, the more sympathetic connection, existing between him and his customer. So, I would say, from the point of view of efficiency of handling business, the indigenous or private banker is probably as good as the larger bankers.

Mr. Devadhar: On account of his being able to employ less staff, does he do his business cheaper?

Dr. Jeidels: I do not think so. In the competition of a middle-sized bank with a large bank I think that difference counts, but it is not like an industry where the technical aspect counts in every small detail. The mechanical part in banking business does not count so much.

Mr. Devadhar: Is there any very large difference between the rates of interest charged by him and any local bank?

Dr. Jeidels: I tried to touch on that in another place, not in this connection, where a small banker's difficulties in western countries begin is this. In order to compete for deposits he has to offer some attraction in the rate of interest, and then he has to charge more interest on his loans. The difference between an indigenous banker and a joint stock bank on the one hand and the moneylender on the other, as I understand it, is that he takes higher interest than the joint stock bank and lower interest than the moneylender. That is the place where I put him in the banking system.

Sir Hugh Cocke: You talked of advancing on first class security, and, secondly, on less realisable security, and, thirdly, without security and you expressed surprise that in India there was comparatively little advancing on the third, without security, that is on the good name of the borrower. From what you have seen, would you describe that as being due to lack of enterprise on the part of the banker?

Dr. Jeidels: If you will allow me, may I refer to the memorandum in which I expressly say that I cannot recommend a change of policy. I think it is a special feature of the banking system in this country that such loans are so infrequent. I regret it, but I do not advocate a change of policy. I tried to give the reasons for it. It reduces the scope of the banking business of the country if only very limited kinds of security can be accepted, but, if you ask me what I would do as a banker in this country under present conditions, my reply would be that I would probably do the same.

Mr. Shanmukham Chetty: What are the special conditions that you are thinking of in this country?

Dr. Jeidels: It is partly the agricultural character of the country and partly the legal position.

Mr. Shanmukham Chetty: Will you kindly just develop the idea of the legal difficulty?

Sir Purshotamdas Thakurdas: I wish to ask two questions in connection with these two paragraphs, because I attach considerable importance to the view that you take regarding the outlay of banking institutions in this country. In reply to Lala Harkishen Lal you already made clear what you mean by commercial banking and I have understood your reply to mean all banking excluding what is specialised, namely, industrial banking or co-operative banking or mortgage banking and exchange banks. In India we all understand this as something separate. The rest is what I may put in one word as general banking. Now, you have stated in your memorandum—I will read the sentence: "Exchange banks do so in giving commercial and industrial and also up-country credits and they compete in taking deposits." I wonder if you have ascertained the extent to which exchange banks give commercial and industrial and upcountry credits. I do not want to put you any questions, but it has been brought out in evidence that exchange banks give credits upcountry only as far as export commodities are concerned and that otherwise the part exchange banks play in general banking is comparatively small. I then wish to ask whether in your second paragraph where you say "Special agencies for commercial banking are the Imperial Bank, the Indian Joint Stock Banks and the indigenous banker", you do not prefer, instead of the words "special agencies for commercial banking", the words "specialised agencies" or "exclusive agencies for commercial banking"?

Dr. Jeidels: Yes, this is what I wished to express.

Sir Purshotamdas Thakurdas: Dr. Jeidels, I shall give you the figures of banks and bankers in this country.

(Rs. ?)

No. of Banks and Branches and Agencies including Provl. and Central Co-operative Banks	750
No. of Indigenous Bankers and money lenders . .	2,64,000

From the figures that I have given you I am sure you will have realised the numerical importance of this community of the indigenous bankers and the very important part they play in the internal trade of the country.

Now I put it to you whether this important class of bankers can be easily replaced or whether efforts should not be made to strengthen them, to purify them and to make them more useful assets in the financial organisation of the country?

Dr. Jeidels: Mr. Chairman, perhaps you will allow me to say that Sir Purshotamdas Thakurdas has put the whole situation in such an excellent form that I would naturally welcome an opportunity to say a few words. In the minds of every one of us, so far as real banking is concerned, there is the feeling that in India, with the exception of foreign banking, the surface is scarcely scratched. I do not know how far the moneylender enters into the banking system of the country. I would make my meaning more clear by giving an illustration. If you take, for instance, the medical advice administered in a country, you find a number of physicians and surgeons who are scientifically educated, but in addition you have all over the country medical service administered by all kinds of people who have been educated and trained in their own way. Now the question is whether in dealing with the medical conditions one ought not to limit oneself to the extent and possibilities of scientific medical aid only.

Sir Purshotamdas Thakurdas: May I ask whether in your opinion the indigenous banker does not understand his business?

Dr. Jeidels: I said with full intention that in this field of commercial banking the Imperial Bank, the Indian joint stock banks and the indigenous banker have their special place but I did not include the moneylender. I certainly do not wish to identify him with the banking system of the country. He may do some service in his own way, but in my opinion he does not form any part of the banking machinery of the country. Generally speaking I would not call a moneylender a banker, because I cannot imagine a banker who does not take deposits; in my opinion the taking of deposits is an essential feature of the profession. If he takes excessive interest, I would again like to exclude him because in that case I would consider him a usurer and not a banker. I would not like to be in the same profession with him.

Sir Purshotamdas Thakurdas: Dr. Jeidels, I understand you to advise that the indigenous banker should be left alone. Don't you think that this would be a sure way of his elimination from the banking system of the country?

Dr. Jeidels: Why should he disappear?

Sir Purshotamdas Thakurdas: Because he has slowly gone down during the last fifty years and I can support this from the experience of my own firm. Whether it is right or not is a matter for the Committee. I will come to the constructive part. I wonder whether you have seen the evidence before th's Committee of the Marwadi Chamber of Commerce of Bombay and of the Indian Chamber of Calcutta. Practically 90 per cent. of the Marwadi Chamber are indigenous bankers. They are merchants; their forefathers were merchants. They found that their indigenous banking business was getting smaller. When it was getting a little humiliating to have to wait at the door steps of somebody to get a credit, they turned to commercial business. They have definitely said that they would agree not to charge more than a certain maximum rate of interest if in proportion to their standing and their needs either the Imperial Bank or the Reserve Bank, whichever may be the agency, agree

to discount their drafts. They said further that they would agree to keep regular books of accounts and get them audited by an auditor selected out of a panel named by the Central Government; they further said that they would agree not to speculate or trade. Now, the way in which this has been discussed very fully in Bombay in various commercial circles has been extremely businesslike. They do not want to oblige this Committee or the country. They say that if a man has Rs. 50,000 cash, he earns his 6 or 7 per cent. on Rs. 50,000. Then on that he gets credit for Rs. 1 lakh or Rs. 1½ lakhs and if he gets a turnover of 3 or 4 times, he can have a margin of 2 per cent. You can imagine he gets a decent income on that Rs. 50,000, taking all the time that he is doing safebusiness. They said that if they were assured of this, they need not trade or speculate or do any other business. Whether the money-lender to-day should be called money-lender or indigenous banker is a matter of detail depending on how we define them. The question is out of these 264,000 you get 6,000 people who are prepared to fall in a line with this. Are you at one stroke going to open 6,000 branches all over the country and hang them? Respectable people will not find enough living out of the business, and others are induced who have temptations to charge exorbitant rates of interest.

Chairman: I know that many other members want to put questions on that point. The point that Sir Purshotamdas put does not really arise here. It arises later on, and his point was to put the facts before you so that you may consider the matter and when the stage comes you might be in a position not only to answer his questions but also the questions which, I know, will be put to you in that connection by many of my other colleagues. The point precisely is this. The number of 264,000 does not matter, because all the 264,000 may not subscribe to these conditions. They do not really satisfy even our definition of an indigenous banker. But the number is not very relevant. It may be that 5,000 or 6,000 of them are willing to subscribe to these conditions. I shall ask the Secretary to draw your specific attention to the conditions to which they are willing to subscribe. You see the real difficulty at the present moment is this. They cannot get—at least that is the complaint; I am not prepared to say whether it is so or not at the present moment, because my views may not be the views of my colleagues—but their grievance is that they do not get proper facilities for the re-discounting of their bills and therefore that results in their being gradually ousted from the business But if they are given proper discounting facilities by the Reserve Bank of the future or by the Imperial Bank, they are willing to subscribe to certain conditions. I will ask the Secretary to draw your specific attention to these conditions. If that is so, the point is whether this Committee will not be justified in recommending that that concession of re-discounting should not be extended to them, provided they subscribe to those conditions. That is a matter to which you have to devote your serious attention, and we should like at the appropriate time to have your views on that subject. You can see the obvious need for it. There are these 5,000 or 6,000; it is a modest estimate—but they are there. They may not be doing commercial banking in the restricted sense of receiving deposits but they take part in the business which forms an item of commercial banking, that is, the movement of internal trade. If it is possible for us by any means, by any reasonable means, to keep them alive, we

would certainly achieve one of our principal objects—the development of banking in India. If you will kindly consider the answer, we shall then put questions to you at the appropriate moment?

Dr. Jeidels: I think it is a very good procedure to revert to this subject when we come to it. I may, however, say that this discussion will be an argument for me to extend to the indigenous bankers what I have said in the memorandum about an organisation for the joint stock banks. Whether such organisation should be provincial or for single communities or for the country at large; whether it should be something like the Chinese Bankers' Guilds,—in any case it would give them a good chance to establish their own standard as bankers.

Chairman: We will come to that later on, so that you may meanwhile read all the literature on the subject. You may also see what Mr. MacDonald of the Imperial Bank has said on the subject. I shall ask the Secretary to draw your specific attention to that point also and also to any other specific references in the matter of other Indian Joint Stock Banks.

Dr. Jeidels: Will you kindly ask Mr. Ayangar to point out to me the relevant portion in Mr. MacDonald's evidence, because it will be difficult for me to find it.

Chairman: He will do it.

Sir Purshotamdas Thakurdas: I just want to add one thing more before I leave this part. I do not want to anticipate anything, but it is rather pertinent. I have said how the indigenous banker has, to my mind certainly, been elbowed out of his field during the last 100 years. The same applies to the bill question—bills not being the fashion in India. Bills were known in India as Hundies centuries back. It is since the Western banking came in that your cash credits became the fashion. A firm which had an overdraft or cash credit in a bank was considered more respectable than a firm which could discount bills for Rs. 1 lakh or Rs. 2 lakhs. One was considered "native" fashion, to use a word which is now out of fashion; the other was considered to be the office-wallah's fashion or European fashion. It is in that way that the hundi has been killed. I am not criticising anybody again. I am only mentioning.

Dr. Jeidels: Who killed?

Sir Purshotamdas Thakurdas: The system, Sir.

Mr. Shammukham Chetty: I may tell you that, supposing, for instance, I want an option of cash credit of Rs. 50,000 or an option to discount bills for Rs. 50,000, the bank would sooner give me the cash credit than facilities for discounting bills.

Chairman: I should like you, Dr. Jeidels, to examine that matter too in connection with the question of money market. You will also find something on the subject in Mr. MacDonald's evidence.

Sir Purshotamdas Thakurdas: Before finishing, I would say only one word regarding bills. India has to relearn what it has been taught to forget during the last 50 years. There is nothing new about it. It is only a question of putting the system on the right lines for bills to become the fashion. If the Chetty, the Mooltani and the Marwadi does not know how to handle bills, there is no one who knows. The system has

got to be so organised that bills will be in vogue within 5 years. I only wanted to mention it.

Dr. Hyder: Since there are gentlemen from different countries I want to ask each one of these gentlemen beginning with Dr. Jeidels whether he agrees with this opinion. I am quoting two passages—

(1) The decline of German private banking in part absolute and in part relative is more striking in comparison with the rapid strides towards concentration of banks.

(2) More important, as showing the decline of the private bankers as a class, is the relative number of those participating in the giro business.

The only point on which I ask your opinion is this, whether this decline of indigenous banking has happened in Germany and also in Europe generally?

Dr. Jeidels: Certainly.

Chairman: You might leave that over until we come to the question of indigenous banker.

Dr. Hyder: I really wanted to say that this was not an isolated phenomenon, but general all over Europe—the decline of the private banker.

Dr. Jeidels: I shall keep all the aspects in mind.

Chairman: You will take every aspect into consideration, and later on, you will be able, both of you, you from the point of view of the indigenous banker and you Dr. Trip, from the point of view of the bill habit, to give your considered views.

Mr. Ramdas Pantulu: May I understand that in Germany the banks give all facilities to customers to discount foreign bills?

Dr. Jeidels: Yes. That has been already explained.

Mr. Ramadas Pantulu: There are no banks which specialise in financing foreign trade. I want to put one question upon this aspect. In reply to Mr. Chetty you said that some foreign banks had disappeared owing to competition with these banks. The German banks then give all the facilities?

Dr. Jeidels: Yes.

Mr. Ramadas Pantulu: Is there any restriction against any foreign country doing banking business in Germany?

Dr. Jeidels: Excepting a few formalities, generally speaking everybody may offer banking facilities.

Mr. Ramadas Pantulu: Do the foreign banks require the permission of somebody?

Dr. Jeidels: Permission to establish is required from the States, but this regulation is practically a formality.

Mr. Ramadas Pantulu: The permission of the States is necessary. Supposing a foreign country wanted to establish banks to cheapen German money, do you expect German States to give permission in view of the benefit to the consumer?

Dr. Jeidels: The case is so hypothetical and theoretical that it is very difficult to answer. Banks coming into Germany will not come with a big bag of gold. If they were to open business and try to receive deposits, that means they would have to enter a business which is already strongly cultivated by the existing banks. Although there would be no political or legislative difficulty it would not be easy and scarcely practicable for foreign banks to enter because they would have to compete with existing strong banking institutions; there is comparatively little chance for them to do business. They would have to employ German staff, because their own staff would probably be more expensive and does not speak the language. They would have to enter a business which is, I do not want to say overcrowded, but certainly cultivated by a sufficient number of banks. It would be very difficult indeed for a new bank to establish itself in Germany, even if there is no sentimental or legislative or political interference.

Mr. Ramadas Pantulu: Then the fact that foreign banks have not established themselves in Germany is due to the difficulties in the way and not due to the sentiment of the Germans?

Dr. Jeidels: I think so.

Mr. Ramadas Pantulu: In India there is a feeling that all the trade, industry, commerce, are in the hands of practically foreign banks and competition with these banks is practically impossible and there will be no chance of Indian banking business being developed. If this is true, then do you think that this Committee should say something about protecting Indian banking interests from being exploited by foreigners, who can afford to get money cheaply, who can finance trade, industry and commerce more efficiently than we do at present. But we hope to do it more efficiently than we do now if the competition is put out of our way and we are allowed to develop on our own lines.

Dr. Jeidels: If you take the bankers' point of view, the banker is very happy over every competition which is removed. From the country's point of view, I think it would be a very tragic necessity if it had to dispense with an efficient existing banking system.

Mr. Ramadas Pantulu: Take the consumer for instance. If we prohibit the import of foreign cloth into this country, he is hit; he has to pay a larger amount, but we are trying to boycott foreign cloth, to put import duties on foreign cloth with the idea of our being able to develop our industry. To me it seems that banking is on the same basis, and if we impose restrictions on your coming and exploiting, there is some chance of developing ourselves.

Dr. Jeidels: I think there is a fundamental error. If a country wishes to develop its resources, the first question is whether its banking system is efficient. Whether it is a national banking system is a secondary question. Is anybody who wishes to develop the economic resources of the country really justified in asking the country to dispense with banking facilities which are efficient and which are available, in order to protect one single trade, banking?

Mr. Ramadas Pantulu: Do you think that if the national system is to come—whether we are right or wrong we want to take that line—the

Indian banking concerns can compete on fair and equal terms with the foreign banks?

Dr. Jeidels: Absolutely fair, absolutely equal and absolutely free, because nobody is obliged to go to the exchange banks, for instance, and deposit money there. Nobody forces them to do so.

Mr. Ramdas Pantulu: Have you studied the questions put to the exchange banks as to why deposits are going to the exchange banks. It is not merely competition, but it is due to various kinds of advantages which they confer.

Dr. Jeidels: It can only be some sort of advantage they offer. Nobody can be forced to use their services. Foreign banks "supply banking facilities;" I would rather take that view than that they exploit. They supply banking facilities and they supply it to everybody who wants them. If somebody does not want them, the banks leave him alone. He can go somewhere else.

Mr. Manu Subedar: Where can he go?

Dr. Jeidels: That is what we are discussing. I think we have the Imperial Bank and the Joint Stock Banks.

Mr. Manu Subedar: Imperial Bank gives no interest on current account. The Imperial Bank is not open to them.

Dr. Jeidels: But they give interest on deposit account.

Mr. Manu Subedar: You said he could go elsewhere. Where can he go?

Chairman: There is the exporter of produce. He must operate through an exchange bank. He cannot go to the Imperial Bank or to many of the joint stock banks. Few of the Joint Stock Banks are actually taking part in this financing of trade. Therefore, they must go to one of these exchange banks, because similar facility is not available from any other source. You may perhaps say, why should not one of the existing joint-stock banks assist that man in regard to the financing of foreign trade. There are difficulties there. It is a question largely of foreign connections. That is really Mr. Subedar's point. When a man goes to one of these exchange banks he does so because he feels that there is no other bank which will give him the necessary finance. The Imperial Bank has kept out of the field of financing foreign trade.

Dr. Jeidels: As we all know, if the Reserve Bank comes into existence, automatically the Imperial Bank will be entitled to do exchange business for which it is certainly well-fitted. Now the country has technically first class firms in foreign trade finance, offering competitive rates. The customer has a nice selection. He finds the best accommodation. I do not know of any complaint. From the customer's point of view, what is the objection to taking it? Could he ever ask for anything else but that the Bank was reliable and that it offered proper and competitive terms?

Chairman: The point of view that Indian witnesses have placed before us is this. It is not the source of the banker to which he objects or to his colour or caste or creed. But there is a general feeling that

he is not given the same treatment as the foreign class of customer is given.

Dr. Jeidels: I quite see the point; I have read this sentiment in dozens of statements.

Mr. Shanmukham Chetty: This foreign exchange business is concentrated in the hands of foreign banks and they make it invariably a condition, though not explicitly expressed but implicitly in their conduct, that they would encourage their customers to have their insurance effected only with foreign insurance companies thereby creating a block against the development of Indian insurance. Suppose the bigger interests of the country suffers. Then what would you suggest?

Dr. Jeidels: I have put the question whether the banking system is efficient. The system of the 16 or 18 banks is efficient, is fine, high class and cheap.

Mr. Shanmukham Chetty: It is certainly so high class that none of us approach it.

Dr. Jeidels: If you do not contest its efficiency but only say it is not available for Indians, then I can answer.

Chairman: It is generally conceded that those banks are efficient. The majority of us admit the efficiency.

Dr. Jeidels: I can answer the question. I cannot say that I have the impression that the Indian merchant, the Indian business man, is more or less excluded from the benefits of this class or that class of banking. We have 16 foreign banks. Many of these banks—I do not state this as a personal opinion, but take it from various papers of the committee submitted to our knowledge—are doing the majority of their business in India. They have to do as large a business as they can in India and with everybody in India who is a good customer. The other class of foreign banks, not doing most of their business in India, Dutch Banks, a French Bank, Japanese Banks, a Persian Bank, a Chinese Bank—could they be interested in leaving any good customer out? Do you think that all these banks of all nationalities could have a common policy in that direction? Do you think one could bring the American Banks or English or French or Dutch or Japanese Banks to an agreement, to exclude a certain class of Indian customers? Is that imaginable, gentlemen? It is quite likely that the business of banks with their various classes of customers is different in practice. If a customer comes to a bank and cannot speak any of the business languages, it makes a difference in his treatment. If he cannot give information about his standing, it also makes a difference. Banking business requires to distinguish the quality of the customers. But that any customer who is likely to bring to the Bank a profitable business—a small one or a big one—should be excluded, is not imaginable. The mentality of a Bank is to do all the business possible. Its fundamental principle is the distribution of the business among as many customers as possible. If you wish my opinion, I give it unreservedly as follows. The Exchange Banks are competing fiercely among themselves, with the result that everybody has full chance of getting the banking facilities which he needs. A Bank's business is not a favour which it does to the customer. I know that many of you and many of your witnesses hold a different opinion,

but I must tell you that I consider that opinion as erroneous. The question ought to be regarded from the point of view of the development of the economic resources of the country. I do not at all dispute the national spirit; it is one of the highest sentiments and it exists in my country too. It is not out of place generally; but it is out of place in refusing banking facilities. I will stick to this point of view and see no possibility of changing my opinion on this general line. You must increase and improve the banking facilities of the country, and if you wish to do this, there is no room for national criticism of institutions which as banking institutions are in my opinion highly efficient. Now with regard to the insurance question. A bank lending money against security has the right to select the security. If a bank gets as security merchandise, it must be satisfactorily insured. To decide what is satisfactory must also be left to the bank, just as it must be left to them to decide to whom to grant loans, as the bank must be satisfied that the loans will be repaid on maturity. The bank is entitled and obliged to select the security and therefor to select the insurance. I do not know to what extent the banks try to out-distance certain insurance companies; I have not heard of it, I have only heard that they select the insurance companies. My own bank in giving credits also allows only a small number of Insurance Companies and accepts well-known foreign insurance companies which offer the same guarantee. But we do not accept many other insurance companies because, we do not consider them as entirely fit for our business. If we give credit we have to select the security and an essential part of the security is insurance. I have studied the insurance problem in this country from the point of view of the capital available for investment in India by way of premium reserves. I find that life insurance business is smaller with non-Indian companies than with Indian companies. Business in non-life insurance is smaller with Indian than with non-Indian insurance companies, but it has developed considerably during the last few years, and it is certainly to be hoped that business of Indian companies will further progress. It should be an important field of activity and be cultivated like all national energies and resources in business. This does not mean that every single specialty of insurance business which is done satisfactorily by the big international companies, must by all means be taken up by Indian companies. They ought to select the most profitable fields. I agree with Mr. Subedar that the country at large needs efficient insurance against fire, for transport risks and so on, but whether the insurance is supplied from India or Germany or some other country, really makes no difference in my opinion. It must be efficient insurance, and this is just as important for the Indian as for the non-Indian customer of a bank which tries to select the insurance according to its experience about efficient insurance. My term of efficiency as guiding principle applies in banking matters as to banking itself so also to insurance connected with bank transactions.

Sir Hugh Cocke: I can say from experience that all that Mr. Chetty said may have been true 10 years ago. It is certainly not true now, that exchange banks demand only certain European companies. Indian companies are accepted to-day. I have seen many policies.

Mr. Shanmukham Chetty: You might remember the evidence given by Mr. Lalji Naranji on this point in which he gave a very good account of

Sir Hugh Cocke: On the question of a change of auditors, Mr. Lalji Naranji is reported to have recommended to the shareholders that the European firm should be retained because the fact that the accounts were audited by the European firm helped them in their business.

Mr. Shanmukham Chetty: If an Indian Insurance Company is restricted even in regard to the choice of auditors, from that we can understand the plight of Indian insurance companies.

Sir Hugh Cocke: I have only told you what he said the other day on the point.

Mr. Manu Subedar: The disability however exists, whether it is diluted by the appointment of English auditor or not and the insurance is only accepted within certain limits.

Chairman: I suggest that this might be taken up when we are dealing with that particular subject.

Mr. Ramadas Pantulu: Assuming that foreign banks are efficient, that European management is most efficient, would you consider that efficiency rules out all considerations of development of national banking?

Dr. Jeidels: Yes, decidedly so. What I have in mind is to help the development of Indian economic condition by supplying a good and efficient banking system.

Dr. Hyder: Have there not been in your country from 1870 to 1918 other factors which influenced the situation such as tariff policy, etc.?

Dr. Jeidels: Development of the economic resources is the primary object and it requires the best banking facilities from wherever one can get them. This is true for my country as well as for every other. It is essential to develop and uphold the resources of the country. If not all banking facility and organisation is available at home, then it ought to be taken from wherever possible.

Dr. Hyder: Agriculture, industry and commerce, etc., have an important bearing. Have they not?

Dr. Jeidels: Of course. But an efficient banking system is of the greatest help.

Dr. Hyder: If the Chinese agriculturist were far better than your own agriculturist, you would give away your land to the Chinese?

Dr. Jeidels: Are we speaking about Chinese agriculturists?

Mr. Manu Subedar: In place of your banks, would you take the efficient foreign banks in India?

Dr. Jeidels: That is a somewhat big question. If we were not satisfied, that means, if our industry and commerce were not satisfied with the banking facilities they get at home—they feel sometimes not fully satisfied—they might. If they can get those facilities in Germany, they will take them; but if they can get them better somewhere else, then they take them there. If a German Bank would open a branch in London—as has been the case up to the war—it would try to do its best to its English customers.

Dr. Hyder: Why did you want to have mark payments instead of sterling?

Dr. Jeidels: Every country tries as far as possible to introduce its own currency. In Germany we were not quite able to do so before the war, but with the liquid resources of the country growing and the rate of

interest nearing the international level we largely succeeded. However even in the last years before the war we had to procure for our customers English, Swiss, French bank acceptances, because they were cheaper.

Mr. Manu Subedar: The foreign banks are very efficient and they give proper service?

Dr. Jeidels: I am not criticising the customers' attitude demanding foreign facilities. It is unavoidable. Germany has to export every year 10,000 millions of marks which is about one-quarter of the industrial production of the country. In order to compete with other countries operating in the same markets, it is necessary to have the lowest possible working costs including the cost of financing. If therefor the financing is absolutely offered to our customers cheaper or more abundantly by foreign banks, the German banker may regret it but cannot criticise it.

Mr. Manu Subedar: Why do they regret it?

Dr. Jeidels: Because we are ordinary human beings thinking of our own business.

Mr. Ramdas Pantulu: I take it that your considered opinion is that if this Committee taking everything into consideration thinks that Indian banking development should take place by affording facilities to Indians and by restrictions on foreign banks, it will not be right?

Dr. Jeidels: Every sort of restriction which you put on any banking facility existing in the country is in my opinion, to the detriment of the economic development of India and I am therefore thoroughly against it.

Mr. Manu Subedar: The biggest bankers in the world are Scotchmen. Why have you not imported them in your own country?

Dr. Jeidels: I shall ask my colleagues at home, why we have not.

Mr. Manu Subedar: On the question of efficiency, we agreed to differ. Now, I ask why in Germany the best article in the world in the nature of a banker, the Scotchman, has not been imported. If you disagree that the Scotchman is a great banker, I would ask who is a great banker. Why have you not imported them in Germany?

Dr. Jeidels: I only know that in German banks everybody finds his place if he does good service, independent of nationality. For instance, in the foreign exchange business of banks in my country, Austrians, Swiss, Hungarians, etc., are employed. Switzerland is a comparatively small country and its citizens seek and find employment all over the world. Our banks take experience and competence wherever they can get it. German banking gets of course most of its staff from its own country. We have 63 million people of whom two-thirds are living in Industry and Commerce; it has not occurred to us that we should import bank clerks. Besides, I do not think they have offered themselves to any extent.

Mr. Manu Subedar: Won't you like to replace these Swiss in your bank?

Dr. Jeidels: They have done us very good service.

Mr. Manu Subedar: When they retire, would you like to put Germans?

Dr. Jaidels: We shall look for the most efficient holders of the place. If we would particularly cultivate Indian or Chinese business, we would have to look out for somebody who knows Eastern business. Be he Scotchman, be he a Swiss, he is welcome. I do not think that the national or patriotic element has really occurred.

28th January 1931.

Lala Harkishen Lal: You have used in your memorandum the expression "on the English pattern" and you want to distinguish that from the German banking system which you call comprehensive banking. Will you kindly tell me what is included in the comprehensive banking system which is excluded from the English pattern?

Dr. Jeidels: I want to ask whether we ought to discuss that here or whether it should not be discussed under industrial banking.

Lala Harkishen Lal: I want to know whether this is the only discriminating feature or is there any other?

Dr. Jeidels: The definitions in banking are not very sharp as you know, and they overlap to a certain extent. I make a difference between industrial banking and industrial finance. Industrial banking is the banking business with an industrial customer. Industrial finance means those financial transactions which do not occur in the course of ordinary commercial banking. If an industrial customer wants to have an overdraft, it is industrial banking; if he wants to issue shares, if he wants to increase his capital or if he wants to issue debentures, that is industrial finance. I think we want some sort of term in order not to mix these two things up.

There is an important difference in the character of the working capital between an industrial enterprise and a merchant's business. The merchant's working capital is much more of a self-liquidating nature than that of an industrial enterprise, where the working capital is practically permanently invested at some place of the industrial undertaking; therefore, industrial banking is materially, not technically, not formally, somewhat different not only from industrial finance but also from commercial banking. Commercial credit is against some commodity which sooner or later moves and moves comparatively quickly, while the working capital of an industrial enterprise is permanent and not self-liquidating asset. Foreign trade banks, of course prefer business with merchants—with importers and exporters—to that with an industrial enterprise. There lies the practical difference.

Lala Harkishen Lal: The English pattern is more restricted according to your remarks and the German system is less restricted. Apart from industrial finance or industrial banking is there any other difference between the scope of banking in England and banking in Germany?

Dr. Jeidels: I do not think so.

Lala Harkishen Lal: They cover the same field in both countries except that German banking adds one or two features which are connected with industries which the English pattern does not do?

Dr. Jeidels: Exactly.

Lala Harkishen Lal: The Joint Stock Banks in India have, some in the past and some now, been helping industries more widely than the Imperial Bank does. Do you approve of that or not?

Dr. Jeidels: It requires a great deal of caution. It puts a certain strain on banking principles—on the liquidity of banking.

Lala Harkishen Lal: You think that wider experience in the management is required to do industrial banking business. How would you bring that into the service of the Joint Stock Banks?

Dr. Jeidels: I can only recommend cautious collection of experience and careful management.

Lala Harkishen Lal: How would you bring that experience in the service of the Banks? In the Directorate or in the management?

Dr. Jeidels: In the management. The first responsibility rests in the management and only the second responsibility in the advice of the Board of Directors.

Lala Harkishen Lal: I should like to know whether you would recruit your managers from the industrial life of the country rather than from the banking life?

Dr. Jeidels: If you ask for the Joint Stock Banks with limited resources, I think certainly from banking, because there it is particularly necessary to have always the banker's principles in mind. That is the first requirement. In Indian joint stock banks I would say that a perfect knowledge in banking is much more important than knowledge in industrial banking.

Lala Harkishen Lal: Would you kindly tell me how this knowledge is supplied in the management or the Directorate in other countries?

Dr. Jeidels: This goes a little into banking education. I think it is necessary to lay particular stress on the proper, real banking education. If the manager is a clever man, well-educated, honest, reliable and experienced, and you ask where he might be less experienced in one of the two fields, ordinary banking or industrial banking, I would say that for joint stock banks it is better he is well educated in ordinary than in industrial banking.

Lala Harkishen Lal: How is the deficiency of knowledge of industrial banking to be made up?

Dr. Jeidels: You can supplement the management by somebody who knows trade and industry, who has learned in industry. You can make him second manager or sub-manager. In any case, give the real banker the post of manager and the first and last word to say.

Lala Harkishen Lal: Is it done any where else?

Dr. Jeidels: Yes, Sir. Also in Germany, where industrial banking and industrial finance is largely cultivated, I think the banker ought to have really the first and last word.

Lala Harkishen Lal: I am asking whether the method of joining industrial finance with commercial finance is done in any other country?

Dr. Jeidels: It is done on the whole European continent. It is done in the United States too.

Lala Harkishen Lal: They have in the management additional staff conversant with industrial finance.

Dr. Jaidels: I would rather like to speak of the management than of the staff. There is always somebody in the management who specialises

more on the industrial side. But the one who attends to the banking business ought to have the first and last word. Banking means doing business with other people's money and the first duty of the bank is to safeguard the depositor.

Lala Harkishen Lal: A deficiency is found in the Indian Joint Stock Banks that they are not cultivating, from the capital point of view or from the depositor's point of view, industrial banking?

Dr. Jeidels: I do not know whether that criticism is justified.

Lala Harkishen Lal: It is a fact that I know of. What would you advise in order that this deficiency may be removed?

Dr. Jeidels: You will find that in the industrial memorandum I have recommended very great caution because that kind of business involves fixed investment. I think I must emphasise that sound banking is the more important requirement.

Lala Harkishen Lal: I do not say that it is not important. But how to add this industrial wing?

Dr. Jeidels: You can only do that if your ordinary banking is absolutely sound. If the ordinary banking contains some weak spots, or if your loans are not easily realisable, then the joint stock banks ought to keep away from industrial banking because it involves dangers. If you speak of industrial banking in the proper sense it means cultivating those loans which are given to industrial clients. That is what I understand by industrial banking. I think that is not an improper field for the joint stock banks, but they must be careful to ascertain whether they can get for money back when the depositors want theirs. Industrial banking in this sense is a little more dangerous than the pure commercial banking against self-liquidating securities. I must advise that no bank in any branch of business ought to dispense with the necessary liquidity of its assets. This is the real dominating feature.

Lala Harkishen Lal: I quite realise your principle of soundness and liquidity. I quite realise that a bank with a small original capital should not venture into the industrial field. At the same time industrial banking ought to come in. But you can advise us on the model of Germany or Italy or some other country which have their capital parallel to ours. In this country the Imperial Bank has one of the best proportion of deposits to the capital. It is only 1 to 7, or perhaps less than that. It has nearly 11 crores of reserve and capital and the deposits during the last few years have been ranging about 70 crores. That bank from your point of view is in an eminent position to come into the industrial field?

Dr. Jeidels: I think so.

Lala Harkishen Lal: Any other bank answering to that description, that is, with the ratio of capital to deposits as 1 to 5 or 1 to 6 or 1 to 7 or 1 to 8 will be in the same position?

Dr. Jeidels: I think so, if it answers your description of the Imperial Bank.

Lala Harkishen Lal: And therefore it follows that those banks which do not receive a very large proportion of deposits in proportion to their capital are the best banks to invest money in the industries?

Dr. Jeidels: I do not quite follow the conclusion. May I illustrate the whole matter? Let us take the case of a sugar factory. The bank may give a proper commercial credit against deposit of sugar in a warehouse. They take the sugar under lock and key and give a loan with 10 or 20 per cent. margin against market price. That is commercial banking. With a sugar factory there is also a large quantity of sugar in the factory itself, practically in course of operation. Besides, that sugar factory has a number of outstanding accounts, and their amount proves to be in sound relation to the liabilities. An examination of the sugar factory shows that it is in good operation and under reasonable management. If the Bank gives credit to that sugar mill without having the sugar under lock and key, it does industrial banking.

Lala Harkishen Lal: But if the lock and key is put on, that is commercial banking?

Dr. Jeidels: I think so. May I ask whether this definition is accepted as a rule by the exchange banks or the Imperial Bank?

Mr. Lamond: We do not put our lock and key in industrial financing.

Dr. Jeidels: Then you do industrial banking?

Mr. Lamond: Yes.

Mr. Buckley: As far as we are concerned, it is a question of the difference between unsecured and secured credit.

Chairman: I understood you to say yesterday that your commercial banking also contemplates what is known in this country as clean credit?

Dr. Jeidels: Yes.

Chairman: That is credit without any tangible security?

Dr. Jeidels: Yes. One further point. My banker may say "The enterprise is good, but after all the sugar mill is not so large and it is against my principle to give unsecured credit. So I shall ask for the title deeds to be deposited as a sort of emergency security." That is also industrial banking.

Lala Harkishen Lal: What one would call here collateral security.

Dr. Jeidels: Yes. It is an emergency security. Such industrial banking, if it is done very carefully, I consider legitimate for the joint stock banks.

Lala Harkishen Lal: You say here, "As far as their business differs from the pattern it is mainly due to special Indian conditions". That means the English pattern?

Dr. Jeidels: The English pattern of specialising.

Lala Harkishen Lal: Would you specify the special conditions of India you had in mind?

Dr. Jeidels: It is a country with a limited bill market and where the agricultural produce plays a very considerable part.

Lala Harkishen Lal: So far as my experience goes, the bill market has suffered for two causes: (1) the over draft system and the cash credit system of the banks and (2) the high stamp duty. In the case of bills, if it is for 3 months and it has to be renewed it comes to about 3½ per cent. in one year. For the sake of argument let us take it to be 3 per cent. There are two factors which militate against the bill market. One is the

stamp duty and the other is the cash credit system which really is much more facile than the bill market. The question that I ask is, supposing the stamp duty is high as I am putting it and also that the cash credit system has really militated, how would you remedy these conditions in order to bring the bill market into being?

Dr. Jeidels: I shall try to answer your questions but it will have to be thoroughly discussed in dealing with the Money Market, as it is an essential part of it. When there will be a Central or a Reserve Bank, as you call it, in this country, then the bill market will no doubt be enlarged and better equipped. I think the habit of cash credit is due mainly to its advantages compared with any kinds of loan. If the sugar mill sells to its customers on 60 or 90 days' bills, then the use of bills will probably be cheaper than cash credit, but in the case of a transaction of a shorter duration cash credit may be cheaper. I think the customer in this country calculates thoroughly the various possibilities.

Lala Harkishen Lal: Here, taking the sugar factory, the sales are effected in this fashion. The purchaser agrees to take a supply within some definite period and some kind of memorandum is written up. The goods remain in the mill itself and in the memorandum it is stipulated that a portion of the goods is to be removed within a week, fortnight, or a month and so on. Sometimes the payment is delayed, but still no bills are written up.

Dr. Jeidels: This would mean that the industry is not sufficiently accustomed to the use of bills.

Lala Harkishen Lal: Therefore, the customer ought to bring the bills?

Dr. Jeidels: I do not understand this statement.

Lala Harkishen Lal: I am a sugar manufacturer myself. I do many transactions including one this morning. You have to accept facts as I place them before you for the sake of argument, because I know those facts in some cases much more than you have been able to acquire. Now then, you said that if a man possessed a bill, he will go to the bank and sell it to him. The practice in this country is not to have bills against goods sold. In other countries the practice is that as soon as goods are delivered, bills are drawn.

Dr. Jeidels: That is an important statement which you have just made.

Lala Harkishen Lal: I am asking you how you would remedy that state of affairs?

Dr. Jeidels: By introducing bills. May I put a question to elicit information? Is the stamp duty a central affair or a provincial affair?—It is a provincial affair.

Dr. Jeidels: My point is that it should not be so. It should be unified for all India.

Chairman: One of the proposals which has been under consideration for some time and will probably be taken up more seriously in connection with the new constitution for India is that the stamp duty on commercial paper should be centralised and adjustments made with the provinces. So, that is a point which is already engaging the attention of the Government.

Lala Harkishen Lal: In our Punjab Committee Report we have discussed this question from the point of view of centralising and from the point of view of reducing the stamp duty. Then, do you agree that one of the methods would be to reconsider the stamp duty?

Dr. Jeidels: I do not object to the stamp duty if it is up to one-half per cent. per year, but my criticism is against its being a provincial affair. The provincialisation of a matter of general trade like this should be done away with altogether.

Chairman: Supposing the rate is found to be three-quarter per cent. per annum, would you call that on the high side?

Dr. Jeidels: Yes.

You yourself prefer that it should be reduced to one-half per cent.?

Dr. Jeidels: Yes, that ought to be the limit in a country with a rather high interest rate. In my country where also high interest rates prevail nowadays, we had 4/10 per cent. some years ago, but it has been reduced more recently to 2/10 per cent. per annum. I think for this country, taking everything into consideration what Lala Harkishen Lal has said. I think half per cent. ought to be the limit. May I know on what terms and conditions the sugar mill sells its produce to its customers?

Lala Harkishen Lal: If it is a small contract, then it is sold on ready delivery terms which means on a week's time or a month's time. They pay cash as they take delivery of the goods, but most people take delivery on the last day of the month and pay cash. Sometimes bills are drawn for 3 or 4 days when goods are despatched outside the factory to a distant destination. The bill is handed over to the bank with a railway receipt. The railway receipt is purchased by the purchaser of the goods on payment of the bill. That is one system. Another system is selling forward on 4 to 6 months delivery. In that way instalments are fixed and when nothing is decided upon, the man has the choice to make the delivery. There are, however, places where timber is sold exactly as you say. In the Peshawar District sugar is sold at 1/3 cash and 2/3 bills and the same kind of transactions was introduced in some other places, but here again the cash credit system has come in and the bills have disappeared. But in the matter of dealing with general commodities issuing of bills is not in vogue, but I want your recommendation on the subject, how best to introduce the bill habit.

Dr. Jeidels: Excuse my cross-examination. My point is that bills come to the bank and are not created by the banks. The bill habit must therefore be re-introduced in trade, unless bills are too expensive to discount or the banks refuse to discount them, both of which is apparently not the case.

Lala Harkishen Lal: Banks generally do not refuse to discount bills, but all depends on what the man is worth, his status and so on. Yesterday I was asking you some questions about the soundness and stability of the banking system. My own experience is that the banking system of any country is entirely dependent on the system of commerce prevalent in that country. If the industry is sound and the commerce is sound, then banking can be sound. Is that not so?

Dr. Jeidels: Quite so.

That is exactly what I wanted to get from you. If the commerce and industry is sound, then it will not be difficult to get bills. Such being the case I want to find out whether our banking is sound or not according to you?

Dr. Jeidels: I should think that the primitive methods now in use are more due to the trade conditions than any defect in banking.

Sir Purshotamdas Thakurdas: Is it not due to a vicious circle?

Dr. Jeidels: If the banks refuse to discount bills or would make it so expensive that it does not pay to draw bills or just as cheap as to take cash credit, then of course banks can be put to blame, but I understand the banks generally charge about 1 per cent. above the Imperial Bank rate in discounting these bills.

Sir Purshotamdas Thakurdas: But the question is what percentage of the total commercial community handling internal trade the banks actually come to know of. In order that a banker may discount a bill he should know something about the party. I am, however, not speaking of banks as a whole. My point is that the big banks know only the top layer of the Indian commercial community, but we all know that there are several layers of the commercial community underneath who play an important part in the turnover of the trade of the country. We are not concerned with the upper layers of the commercial community. Supposing for example, a sugar dealer takes a bill from a man, say, who is in layer No. 8, and the bank refuses to discount the bill on the ground that he does not know anything about him, then that is an anomalous position. I just wanted to know whether this point has struck you, the fundamental point being, the number of people known to the banks.

Dr. Trip: In my memorandum on the Money Market I have touched on that point. I say the lack of bills in this country is not a result of a lack of organisation only, but a lack of knowledge and confidence and touch. Without confidence, knowledge and touch there is no possibility for a bill market to come into being. And so long as these factors remain, even when a Reserve Bank is started I am confident that the Bill habit cannot be developed.

Dr. Jeidels: I quite agree.

Dr. Trip: We all, of course, wish to develop the bill market but we must absolutely be in a position to know what the real factors are and the difficulties that lie in the way of its development. I do not criticise the banks, but I think in this country there is this difficulty of finding out the position and the standing and respectability of the signatories to the bills and as long as that is not got over, you cannot develop the bill market in this country. I will deal with the question more largely when we come to the question of the money market.

Chairman: That is very interesting. Lala Harkishen Lal's first point was how far the growth of the system of cash credits was impeding the growth of the bill habit. The other point was that the stamp duty was impeding the bill habit. His other point was that the growth of the cash credit system in recent years is not only impeding the development but actually reducing the ground previously covered by bills. That is

also a matter which we might usefully discuss at a later stage. If Dr. Jeidels wishes to discuss it here, I am quite willing to allow the discussion to proceed.

Dr. Jeidels: I suggest that it be taken up with the question of the money market.

Lala Harkishen Lal: I agree.

Chairman: You will find a great deal on the point as to what extent the growth of the system of cash credits has not only impeded the development of bills but also reduced the ground previously covered in Mr. Macdonald's evidence. If you will kindly look into the matter when you are dealing with the question of bills, it would help us.

Mr. Lamond: I want to know whether you would approve of bills replacing cash credits when they are held by a dealer in a godown awaiting sale, whether you would approve of that being done by bills instead of cash credit?

Dr. Jeidels: Yes, certainly, by bills instead of by cash credit, to put the country more on the basis of bills than of cash credit. That is a very essential point.

Chairman: If you will kindly consider that, and bring it up in your discussion later on, I shall be obliged and the members would profit by it.

Dr. Hyder: I wish to bring out a passage from the Report of the Taxation Enquiry Committee so as to put our friends in possession of facts in reference to the duty on bills compared with other countries.

The corresponding rates in England and the United States of America are—

	England. Per cent.	United States. Per cent.
Transfers	1·0	·10
Bonds	·125	·05
Bills of exchange	·05	·02

The duty on bills in India is, therefore, nearly double that in England and nearly 5 times that in the United States, and that on bonds 4 times that in England and no less than 10 times that in the United States. Moreover, the disparity in the case of bonds has been accentuated by the fact that in some cases provincial legislatures have increased the rates of duty by 25 to 50 per cent.

Lala Harkishen Lal: Then you say "The lack of a central bank. . . . . competitor". This I suppose implies the function of a banker's bank and the joint stock bank should be separated as early as possible?

Dr. Jeidels: It will be in time. It is something unusual.

Dr. Trip: It is not usual I quite agree, but it may be desirable under certain circumstances. The Reserve Bank is not purely a bankers' bank.

Chairman: Reserve yourself on that point. We will pursue the discussion when we are discussing that particular question.

Lala Harkishen Lal: Would you tell us how bank acceptances are made and what advantages they have. I want to know the method in which bank acceptances are done, and what useful purposes they serve?

Dr. Jeidels: It serves the useful purpose, that it is the cheapest form of banking credit. Instead of a cash credit which your sugar factory gets from the bank, the bank could put its own acceptance at the disposal of the sugar factory. Banker's acceptances are the highest class of bills in a bill market; those bills are selling at a more favourable rate—at lower rate of interest than any other bill. The English banks formerly held their acceptance only at the disposal of import or export transactions; but they do it now largely for all kinds of business, because it supplies the cheapest sort of credit.

Lala Harkishen Lal: Does that mean that really an acceptance is useful when there is a bill market?

Dr. Jeidels: Yes. In the absence of a developed bill market in India you could do nothing in this direction. The commercial banking of the country is in its methods somewhat primisive, as I wished to illustrate by alluding to the lack of bank acceptances.

Lala Harkishen Lal: I am rather pleased, that you have made this reference. If some banks started this (acceptance), this will be very good support for acceptance market?

Mr. Currie: Yes.

Lala Harkishen Lal: When you speak of the commercial banks here accepting the German system of more comprehensive banking, is it to supply the place of the private banker also?

Dr. Jeidels: Yes, the English private banker. Most English private bankers do issuing business in shares and bonds. He helps industrial and other companies to increase their capital.

Lala Harkishen Lal: Not under-writing?

Mr. Currie: I am an English private banker. I am not an issuing house. In the old days a very large number of banks in England were private banks and there were partnerships. There were in it various men who were rich. They did all the banking of England. As joint stock banks came in they competed with the result that they acquired the interest of the private bankers and in other cases provided bankers themselves to joint stock banks. My own family firm amalgamated with Messrs. Glyn Mills & Co., and we subsequently acquired the business of Messrs. Holt & Co. They started getting private accounts and other business which needed at various times advances and in that way built up business.

Lala Harkishen Lal: I want to know what fields they cover?

Mr. Currie: They cover all the field now of commercial banks. The difference in the fields they cover are issue and stock brokerage. Whereas in Germany all the banks are members of the Stock Exchange, in England none of them are.

Dr. Jeidels: I had those bankers in mind, who are issuing houses.

Lala Harkishen Lal: You will recommend a slightly modified form as you have put it here?

Dr. Jeidels: Yes, industrial finance and stock exchange business are also included in my term of comprehensive banking.

Lala Harkishen Lal: So far as investment in Government securities is concerned, do not banks on the Continent do it?

Dr. Jeidels: That was discussed yesterday.

Lala Harkishen Lal: I want to know whether you lay emphasis on the word "very largely:" Compared to the continental banks are the Indian joint stock banks dealing more largely in Government securities? The Peoples' Bank have 80 lakhs in Government securities of its own against advances on all sorts of securities of 2 crores and 30 lakhs. We have about 40 lakhs in cash.

Chairman: I shall give one instance, which came to my notice. I took the figures from the balance sheet. The figures are.

	Rs.
Investments in Govt. securities	31 lakhs,
Deposits with banks	14 ,,
Loans, bills, discounted etc., fully secured	21 ,,
Pro-notes joint	69 ,,
,, single	1 ,,
Bills	33 ,,

That does not confirm the statement you have made here. It is roughly 25 per cent. of the total?

Dr. Jeidels: Indeed, that if a bank has 25 per cent. of its assets in Government securities, this is a very large percentage of its liquid resources for investment in Government securities. If you had a Reserve Bank the Bank would certainly have less Government securities and more bills.

Dr. Trip: What are the Government securities? Are they loans?

Mr. Lamond: They include treasury bills.

Dr. Trip: As long as I do not know what the division is, it is very difficult to give an opinion.

Mr. Lamond: These are the figures for the big five in England, 224 millions in investment, and trade advances 1,256 millions. That is roughly about a fifth.

Mr. Currie: As against that, they have a large proportion of their liquid assets in bills, which Indian banks do not have.

Dr. Jeidels: In this country it is profitable to hold a certain amount of Government securities, owing to their comparatively high yield of interest.

Chairman: We do not know how much of the 31 lakhs invested in Government securities by the Bank in Madras, consists of treasury bills. Lala Harkishen Lal himself is a banker; he may be able to give you some details. I am simply referring you to the figures which came to my notice?

Dr. Jeidels: If you ask me, Mr. Chairman, whether the large investment in Government securities strikes me as a special feature of this country, I say, that indeed it strikes me as such.

Mr. Lamond: The Canadian Banks have a large percent. of treasury bills, 70 millions, and discounts and advances 299—about 20 per cent.

Dr. Jeidels: I do not want to be inquisitive. But of the 80 lakhs invested in Government securities by the Peoples' Bank, how much is in treasury bills?

Lala Harkishen Lal: Very few treasury bills. Perhaps 2 lakhs are treasury bills.

Mr. Rushforth: I have here the figures for all the banks in India for 1926, 1927, 1928 during which years I do not think treasury bills played a very important part. Perhaps you would like to hear the figures.

Central Bank of India—

Gilt edged securities	8 crores 22 lakhs.
Loans, advances	9 ,,
Bills discounted	1 ,,

Allahabad Bank.

Gilt edged securities	3 crores.
Loans, bills discounted, pro-notes	5 ,,

Dr. Jeidels: I would like to emphasise, that my remarks on this matter are not meant as criticism. If one wishes to describe commercial banking one has to point just to those features which are Indian and not general features. With the Reserve Bank in existence, you will have more investment in bills and less in Government securities. I am not speaking of treasury bills, as no separate figures are available to us.

Lala Harkishen Lal: The Government does not at present sell a large amount of bills to banks but to outsiders, because the Government is paying today over 6½ per cent. as interest, while no bank is paying 6 per cent.

Dr. Trip: It will have big consequences on the financial policy of the Government.

Dr. Jeidels: This is why I drew attention to the fact. Not that any measures should be taken in respect of it, but one ought to show those features which are essential for future development. If the banking system develops from somewhat primitive to higher forms, the Government will have to look out for finding new markets for Government securities, and I do not think the amounts are so large that this would create difficulties. I think the amounts in question are certainly not more than 40 or 50 crores, and not all of it will be replaced by bills.

Mr. Khaitan: Don't you think it is a very good point for consideration by the Committee so that measures may be advocated for the improvement of banking in the country? I did not quite catch the point when you said "I do not draw attention to this with the intention that any measures should be taken in respect of it".

Dr. Jeidels: It is quite natural that if the banking assets are largely in Government bonds and not in commercial bills, then the country at large, is of course, less supplied with banking facilities. Every crore of liquid assets invested in commercial bills instead of in Government bonds is an increase of the banking facilities of the country. Let us use the analogy of yesterday again, the physician examining the patient. He makes observations showing prospects and possibilities which may develop but they do not urge him to perform an operation; they do not call for

immediate action. Banking is an evolution; it is not made but develops and in examining the banking conditions of a country one has to find the traces of prospective future development. I think that with an increase of the bill market banks will by and by be able to use their liquid resources more in the banking business of the country. I consider this a sound prospect, to which one may look forward, but which does not call for specific measures, particularly not legislative. It forms part of the normal development of the country and of a healthy one.

Chairman: That was the reason why I was trying to fix the issue, and I wanted to hear from you what in your opinion is too high a percentage. You say it is 25 per cent. from the figures we had before us in India. Now, in the case of the Big Five in England it is 20 per cent. Then you raised the question: Do those figures include Treasury Bills or not? Now, even if they included Treasury Bills, that is Government loans, the point of view which you are now placing before us would still be there. You see whatever importance may be attached to that view would be irrespective of the fact whether the holdings in Government paper are in long term securities or in Treasury Bills. It is of some importance from the point of view of this Committee, and I simply mention the point now. Perhaps we will deal with it when dealing with this question of the money market and commercial paper.

Lala Harkishen Lal: There are banks like the Central Bank with 47 per cent. of its reserves invested in Government securities, and I know of a bank called the Punjab and Sind Bank which has got 60 per cent. in Government paper. In the same way the Punjab National Bank has 2 crores as against 3 crores advances, a bigger ratio than the Bank of India.

Mr. Khaitan: I believe the Imperial Bank itself, which is the biggest bank, invests about 33 per cent. in Government securities.

Lala Harkishen Lal: When I read the word "large" I read it as applicable to all those banks.

Mr. Manu Subedar: If that position is such, would you not suggest some means of bringing it into line with the other countries?

Dr. Jeidels: Yes, by the establishment of a Reserve Bank. It seems to me impossible in any other way.

Lala Harkishen Lal: You hesitate to give us any advice how to improve the present position with regard to loaning. Would you think out and give us some real lead in this matter?

Dr. Jeidels: I tried to allude to a few points which would make it easier for a bank to take less simple security, such which is less easy to realise. The bank has to be satisfied about the quality of the loan. If it is possible to satisfy the bank that the loan is just as good without security or with some other than quickly saleable security, then the bank may agree to it; to establish these possibilities, I tried to give some suggestions which are not meant as more than hints. I suggest that as far as I know, the country has not one general and simple commercial law. Of course, I must not be examined on the legal situation of the country. I only know that a simple and uniform law, which facilitates business everywhere, does not exist here, and that one hears many complaints. Some speak of the Hindu Family law, which seems at least not a simple local situation. All countries which have developed economically have

tried to simplify and to standardise conditions, and quite important among such is a good commercial law. Some of the economic progress in my country up to the War I attribute to the clear and simple legal conditions which were in the year 1900 crowned by codification of the general civil law. Our commercial law was codified immediately after the establishment of the German Empire, a commercial law which applies to all parts of the country. This makes it, of course, very much easier to be satisfied, whether the credit is by all means secured. I tried by the wording of the memorandum to avoid that I should be examined on the subject; I am not competent to speak on legal conditions in India, but I don't believe to say too much, in expressing an opinion that they are more complicated than those in my own country and in many other western countries. Take only two countries which have codified laws, France and Germany. In France you have the perfect Code Napoleon which is one of the most marvellous codified laws with regard to simplicity. In Germany you have the German commercial law of 1872 or 1873, and the general civil law of 1900. Removing economic differences and internal barriers to business in the country is one of the methods to raise banking to a higher standard. The second suggestion was in regard to the problem, of getting that kind of information—I do not say sufficient information, but that kind of information to which modern banking is used.

Lala Harkishen Lal: Would you kindly tell us how you tabulate and how you collect the information in Germany?

Dr. Jeidels: I am sorry I did not bring one of these files from home which we use in my bank for every customer. In most western countries there are one or more agencies, like Dunn's Seyd's. We have an all-round information service and use also foreign agencies, because the geographical distance often improves the quality of the information. We also collect private information and principally we have the customer's balance sheet.

Lala Harkishen Lal: One is the public institution?

Dr. Jeidels: Yes, they are commercial firms which makes it a business. They take subscriptions and sell their information.

Lala Harkishen Lal: Another is private enquiry?

Dr. Jeidels: Private enquiry through other banks.

Lala Harkishen Lal: And the third is the balance sheets of the firms?

Dr. Jeidels: The balance sheet and the accompanying information which the customer gives, his own statement.

Lala Harkishen Lal: That is on what really the credit of the people depends, these three kinds of information. You also get from abroad information from foreign firms, not German firms?

Dr. Jeidels: Yes, we sometimes use foreign agencies like Dunn's and Seyd's.

Lala Harkishen Lal: Is there any agency for India?

Dr. Jeidels: For India we would probably write to an Exchange Bank.

Lala Harkishen Lal: I found in 1924 in the Deutsch Bank at Berlin the names of half a dozen people of Lahore with very interesting information about them which was not in accordance with my information. I do not say that it was correct or not, but it was there.

Dr. Jeidels: A service like Dunn's or Seyd's is one of the most wonderful organisations which I know in the world. That is why a bank never relies exclusively on its own knowledge, it is not even satisfied with the customer's statement. It also consults the information from these organisations, because they have so great an experience that they accept some statements and doubt others.

Lala Harkishen Lal: How would you in that information deal with people who are very sound and not speculative, but who, at a later stage, begin to speculate?

Dr. Jeidels: They would add: "Mr. so-and-so is somewhat open to temptations".

Lala Harkishen Lal: A man must not be open to temptation from the very start?

Dr. Jeidels: They generally give the history of the firm, when it was founded, what its capital is and so on; that figures are not available or that the figures are of doubtful value; with whom he does his banking, etc.

Lala Harkishen Lal: That is all right, but the question that I ask is this: A man may be reported very sound in all these three statements that you get, but he might take to temptation at a later stage. How do you guard against that?

Dr. Jeidels: Such information is no insurance.

Mr. Khaitan: Is it not revised from time to time?

Dr. Jeidels: Yes, it is revised before using the information; if it is say two months old one asks before deciding whether it is up to date or whether there is an addition. I have made a practical suggestion to create some sort of reliable information service. Of course, one country cannot be developed on the same pattern as another. The Chambers of Commerce have, I trust, some way to suggest. Please consider whether it is not possible to build up an Indian institution to supply information. The banks use at present the shroffs and make a note of what they hear from the shroff. I have seen a few shroffs and admire their knowledge, but I am a little afraid of it being too much a matter of memory. The information which was given to me was really marvellous, but it relies on memory, and memory is not a part of modern organisation.

Mr. Manu Subedar: Has this system been known to be incorrect?

Dr. Jeidels: The firms exclude responsibility. There may be errors, but I think the percentage of error is very small.

Mr. Cassels: Very small indeed.

Dr. Jeidels: If you start something like that in India it will be imperfect in the beginning.

Mr. Cassels: As a matter of fact they are publishing a book each year in which they give a list of hundreds of names of the more important business firms which are so well-known that they can put down their worth in a very few words.

Mr. Lamond: In our bank, in up country branches, during the last few years, we have encouraged them to give a statement of their position. Our information has improved tremendously during the last two years. We did not receive it before but now we have started it.

Lala Harkishen Lal: You say that the Joint Stock Banks and the Imperial Bank are cultivating a kind of business which may seem unimportant from the Western point of view but has the advantage of encroaching upon the field of the money lender. You approve of it for that reason?

Dr. Jeidels: Yes, very much so.

Lala Harkishen Lal: You are very much against the money lender?

Dr. Jeidels: Yes.

Lala Harkishen Lal: Money lender in India or in all countries?

Dr. Jeidels: In India. I do not know of them in other countries.

Lala Harkishen Lal: Your reasons for that, please?

Dr. Jeidels: He takes too high interest.

Lala Harkishen Lal: In the Punjab Committee we have thrashed this out and we have come to the conclusion that he does not recover what even the banks do?

Dr. Jeidels: If a man lends at excessive interest to somebody who is not good and is likely to pay only the interest and not the capital, even that does not change my opinion about the method, that is charging high interest. It is only this to which I object.

Lala Harkishen Lal: What is a high rate of interest?

Dr. Jeidels: It is difficult to say. 24 per cent. is high.

Lala Harkishen Lal: The information that Mr. Darling has collected shows that in Java the rates sanctioned by the authorities are much higher than any Indian money lender thought of getting. I think 65 per cent. is the rate mentioned.

Dr. Trip: Oh no.

Lala Harkishen Lal: Mr. Darling who has been Registrar of Co-operative Societies for a long number of years and who has been studying the subject all over the world had ideas against money lenders severer than those of Dr. Jeidels. But after the enquiry which he has made he has changed his opinion. Doctor says that he is only against the money lender in India and not against the money lender generally.

Dr. Jeidels: If you show me similar practices, I am against the others too.

Lala Harkishen Lal: To charge high rate of interest is the crux of the whole thing?

Dr. Jeidels: Yes. I do not mind the money lender as such. Money lending is absolutely legitimate; but the money lender should not charge excessive interest.

Dr. Trip: In Java this can only relate to advances made in kind in paddy especially. What we call the People's loan system is under the authority of the Government. They do not lend money on higher rates than on an average 13 per cent. I can show you the official report.

Lala Harkishen Lal: I will write to Mr. Darling and get the statement. What is the rate on paddy?

Dr. Trip: Paddy is lent in kind. It comes to about 50 per cent. But that is an organisation of the village itself. The profits they make remain in the village itself, in the co-operative societies. It comes to 50 per

cent. for a harvest, that is for six months. It really comes to 100 per cent. per annum.

Mr. Devadhar: Is it a registered co-operative society?

Dr. Trip: It is an organisation of the village.

Lala Harkishen Lal: You say: "An important problem is the use of the vernaculars in the various fields of banking". We had a discussion in our Committee about cheques being written and signed in the vernaculars. The objection was raised that the signatures could not be so easily identified as in English. Is that your experience also?

Dr. Jeidels: That is the cause of my suggestion. A certain standardization is necessary in order to develop the economic resources of the country. Each country has its own difficulties for standardisation. I quite see that on this continent with a population of 300 million, the obstacles are great, but they ought to be overcome somehow. Vernaculars must be used; otherwise banking cannot penetrate the country. As reported 85 per cent. of the population are illiterate and of the remaining 15 per cent. some are literate in less frequently used vernaculars. I therefore think that something should be done, but actually what should be done I cannot tell you, it requires a more through knowledge of Indian conditions.

Mr. Manu Subedar: There is "no less frequently used vernacular" in India. Literacy involves a standard vernacular in each province.

Dr. Jeidels: I am not competent to speak about the vernaculars of India, knowing none of them myself I cannot say how far they are related to each other. But I have read of the existence of 220 languages in the country and that creates a difficulty for banking business.

Mr. Manu Subedar: Have you not got 20 or 30 dialects in Germany?

Dr. Jeidels: There is only one language in Germany. In Italy, for instance, 6 or 8 dialects have more the character of languages, but only one language is in official use.

Mr. Manu Subedar: In Berlin I found different dialects.

Chairman: You are really referring to scripts. You say there are 220 scripts.

Dr. Jeidels: No, to languages, not to scripts, which are less numerous, as I understand. Please do not examine me on the point. I only know for certain, that it is not a standardized country. I made the suggestion, in order to make banking simpler and easier. The principal bank of the country ought to take the matter in hand.

Lala Harkishen Lal: In my Bank we do keep accounts and we do let people write out in Urdu and Gurmukhi in the Punjab and we find no difficulty.

Dr. Jeidels: I would not like to go into details about it. But the fact, that some banks do this and others do that—is just what I object to.

Chairman: Even so, I believe you have a rule by which you definitely safeguard yourself against any loss which may arise by the use of any of these Indian vernaculars.

Lala Harkishen Lal: Our men think that they can distinguish the signatures. The idea that the vernacular signature cannot be identified is not supported by the C. I. D. either. Experts make out the vernacular

signature as easily without knowing the language. That means that it can be standardized. In England I found that my character was told from various writings, whether they were in English or whether they were in other languages. I showed these experts who tell character by handwriting at one time in English and at another time in the vernacular. They did not know that it was the same man.

Chairman: All that you say really supports the Doctor's point.

Lala Harkishen Lal: I welcome his suggestion. I asked that question because I agree with him.

Mr. Lamond: There is one point I would like to discuss, and that is, a comparison of the securities taken by banks in Germany and in this country. I will explain what security we take on the various advances. You say "From a mere banking point of view, the principal features of commercial banking in this country are two: the large amount invested in Government securities by the banks and the prominent position held among the banks' loans by those given against actual merchandise deposited either in the banks' godowns or in the proper legal form with the customer. Both classes of banking investments signify a comparatively undeveloped banking system". From that and the remarks that follow it would appear that there is not much banking in India. There is a very large volume of business financed by banks in this country clean. When I say clean, I mean that 2 names are taken to the documents. We call that secured advance. The reason for that so far as the Imperial Bank is concerned is this. We can give on a single name, but to come within the Act, we have got to have two names. It is often done by two people guaranteeing each other for similar sums or coming to some arrangement for a guarantor. In the case of Joint Stock Banks the managing agents here guarantee the advance. They make out a promissory note with 2 names and then in some cases, not in all cases, they take a hypothecation of the stocks. The hypothecation is taken very often at the request of the managing agents themselves. They get the bank to take a hypothecation of the stocks. But their credit is regulated by the value of the stocks with margin. The reason for taking the hypothecation is that a court in this country, if you file a suit on a promissory note, will give judgment against the guarantor not to take effect immediately but after the realisation of the collateral security. The law is quite clear. There have been cases which have gone to the House of Lords. The local courts always give the guarantor the benefit of any collateral security held. You must realise from the collateral security before you fall back on the surety. I agree with you that clean credit is more satisfactory credit. If you satisfy yourself that the people you are advancing to are sound, then it is the best possible form of finance. Can you say in what cases you give actually clean credit without any guarantor?

Dr. Jeidels: Most of the well-known trade and industry is in the form of joint stock companies. Merchants are mostly private firms, and if the private firms show a large capital, and if the firms and their members have sufficient private property, and are people of very high standing, they enjoy the same treatment as stock companies.

Mr. Lamond: You go entirely on the standing?

Dr. Jeidels: Yes.

Mr. Lamond: You watch the balance sheet—if they are not drawing more.

Dr. Jeidels: As a rule banks would not give clean credit without seeing the balance sheet. We consider clean credits as such of indubitable value. With other credits some special security is necessary. I can give you the figure of the largest German Bank. They show in their last balance-sheet 200 crores of loans of which 50 crores was clean credit.

Mr. Lamond: How would the balance be secured?

Dr. Jeidels: The balance is secured by all kinds of security. Goods in warehouses are a comparatively small amount of the secured credits. Other loans are secured by collateral in shares and bonds, and a very popular security is the title deed on factories. What corresponds to your deposit of title deeds may be up to 50 per cent. of all securities. I would call title deeds "a sort of emergency securities". One knows that to realise this kind of security will be rather difficult. It often means participation in the reconstruction of the debtor firm. Therefore I choose to call it a security to be used in case of emergency.

Mr. Cassels: The various banks do not separate, as they do in the German Bank statement, the loans against securities and the loans given without securities. They are all lumped. The unsecured advances have grown very much in the last 10 or 20 years simply from the fact that the companies have made so much more money and that they are so rich.

Mr. Lamond: Are they confined to these big companies?

Mr. Cassels: No. There are small ones as well. The big companies are well known joint stock *companies*, the public utilities, and so on. I could not give any information as to the proportion between the large and the small loans.

Dr. Trip: I am in the same position as Mr. Cassels. In the balance-sheet of Dutch companies no distinction is made between clean credits and secured credits. So it is impossible to say which are our clean credits. I can only say—and this seems to be the case in all the countries—that they give clean credits only to really big people whose standing is absolutely undoubted.

Mr. Lamond: You really follow the same principles as we follow out here?

Dr. Trip: Yes.

Mr. Currie: The Banks in England make no differentiation at all between secured loans and loans which are not secured. A great number of them are loans on secured credit.

Dr. Jeidels: It has to be kept in mind that the banker can give clean credits only under certain general conditions. Those conditions exist in my country even more than in England, because we have one codified law all over the country.

Sir Purshottamdas Thakurdas: Pending that coming, do you think that it is such a serious handicap—the defect in commercial banking to which you refer?

Dr. Jeidels: The slightest handicap would of course prevent clean credits. A rumour about the customers' excessive private expenditure,

for instance, will probably cut clean credit out. Clean credit is certainly not the usual thing, it requires entirely clear conditions. I venture to say that we German bankers do not at all believe that we impair the safety of our money by giving such credits but this does not mean that it should be recommended as a system elsewhere. We ought to investigate together, whether there are in this country such obstacles to our practice, and whether we find some device to remove them in order to stimulate broader loaning methods in banking. This seems to me to be the way to proceed if one examines a country's banking conditions. In my country, if a banker grants clean credit, he makes it conditional on the customer's declaration of his other liabilities than those shown in his balance-sheet, he has to state his deferred liabilities from guarantees, etc., and the banker does not like them, if the customer wishes unsecured credit. Now under the family law—you have confirmed my view—there is a deferred liability on everyone, of course we would not give clean credit to somebody who is liable for amounts which we do not know and which he himself does not know.

Mr. Khaitan: They are all bound by the transaction.

Mr. Manu Subedar: After the bank claim is satisfied, then come other claims.

Chairman: You are a banker, Lala Harkishan Lal. Does this personal law stand in the way of granting credits in your case. I can quite see the difficulty about mortgage loans?

Lala Harkishan Lal: It does, because you have to get property. You give credit not on the money he has on the bank, but on his property, and when you proceed against property by a decree, difficulties arise and have arisen. So long as he pays, business goes on. As soon as it comes to a stop and you have to recover it through court or arbitration, the difficulty arises.

Mr. Manu Subedar: Supposing there is a factory owned by a family. There are 5 members; one of the chief members manages; the factory has been given credit by a bank; the bank has to attach the factory. Would the claim of the junior members interfere with the bank's credit?

Lala Harkishan Lal: I think it would, not only the claim of the junior members, but that of the mother, the wife and the minors. I am not familiar with the Bombay and Calcutta law, but so far as the Punjab, Sind and N. W. Frontier are concerned we have felt that difficulty. We had to sue once in D. I. Khan; we got a decree which we wanted to execute against the sons. Then the mother said that under the Mitakshara law she was entitled to maintenance and the court held that she was entitled to maintenance; therefore until she died we could not proceed against the property. We have the claim also of the daughters for marriage; the marriage expenses and the death expenses of the debtor.

Mr. Ramadas Pantulu: So far as my knowledge goes, creditors get precedence over the claims of the members.

Lala Harkishan Lal: I am giving you a case in which we appealed to the High Court, as it was not big enough to go to the Privy Council. It was a matter of only Rs. 2,000. We could not realise the amount until the death of the mother.

Mr. Ramadas Pantulu: You are aware that with regard to families that are trading the Privy Council has placed the coparcenery Hindu family as a partnership in trade?

Lala Harkishan Lal: Hindu Law varies. I have given you an instance which has come within my own knowledge a short time ago.

Chairman: We have got Lala Harkishan Lal's experience as a practical banker. That confirms the statement here. Whether his legal position is correct or not we can discuss among ourselves. I simply want to find out the experience of practical bankers at the present moment. Have you any practical experience, Mr. Buckley?

Mr. Buckley: The Exchange Banks' Association took legal opinion in Calcutta some two or three years ago on the subject and I hand it to you. An advocate was asked what security a bank would have against landed property deposited by a joint Hindu family under the *Mitakshara* Law and he held it was unsafe, and that it was absolutely no security.

Mr. Lamond: We find it very difficult to get a quick decision. There have been cases where the court has taken a very favourable opinion of minor's and widow's claim.

Chairman: Does it stand in the way of clean credit?

Mr. Lamond: It is a great hindrance to it.

Chairman: Do you make any special investigation before you grant clean credit as to whether the person concerned is governed by the *Mitakshara* law?

Mr. Lamond: In such cases we take a letter of consent by all the major members of the family and make the head of the family sign on behalf of the minors. We are not quite satisfied as to whether it is of very great value.

Sir Purshottamdas Thakurdas: This defect in Hindu Law must be affecting contracts of Indian (Hindu or Muhammadan) merchants in their commercial dealings.

Lala Harikishan Lal: They are.

Sir Purshottamdas Thakurdas: Still in spite of that they continue to carry on commerce. We in other presidencies have not known their suffering from any handicap.

Lala Harkishan Lal: We refuse to give credit to such people and we do not follow whether they are able to get credit elsewhere. Some of my best friends have been refused credit.

Mr. Manu Subedar: If the mother became a party, would that remove the difficulty?

Lala Harkishan Lal: Then of course it is easier. There have been cases in which mothers have got wills and have relinquished their right to maintenance. Then the handicap is removed by the mother, not by the bank.

Mr. Shanmukham Chetty: The difficulty pointed out by Lalaji is substantially correct. The first difficulty is whether one member of a Joint Hindu family is entitled to bind the other members of the family and the family property in his transactions. To get over the difficulty, banks get a deed of partnership from the members of the family. Even that does

not solve the difficulty, because, as has been pointed out by Lala Harkishan Lal, when the matter goes to the court, all sorts of unexpected claimants come in, claim of the widow for maintenance and the contentions of the minors saying that the debt was not for the famliy. I therefore suggest that this Committee ought to examine further with the assistance of legal experts as to how far the joint Hindu family law affects banking facilities.

Chairman: Mr. Khaitan showed me the opinion of the Advocate General. We have first to consider whether we are going to touch questions trenching on the personal law of any community. That is the first point to settle before we take any legal opinion.

Mr. Shanmukham Chetty: We find personal law hampers the development of banking.

Chairman: We can say that the personal law of the country hampers banking. As I have already mentioned, we are not here a Committee of social reformers. We will have to carefully consider the matter. I would not mind mentioning it in the report that this is a factor which impedes the development of banking in the country. How it is to be removed is, in my opinion, outside the purview of this Committee.

Mr. Mukhtar Singh: If some of us feel that it does not at all exist?

Chairman: That is another matter. Anyhow we will be justified in making this statement.

Mr. Ramadas Pantulu: Dr. Jeidels, you were speaking of the revision of the Land Alienation Act. What do you mean by it.

Dr. Jeidels: May I answer by putting a question? If a bank lends money to an agriculturist and the security is a mortgage on his farm, can the bank if the farmer does not pay on maturity of the debt, take possession of the land?

Mr. Ramadas Pantulu: They cannot.

Lala Harkishan Lal: You cannot take possession except on a lease. If you have given a loan and you cannot recover the loan otherwise than by taking possession of the land, the court has the authority to give you a self-liquidating lease to the maximum of 15 years.

Mr. Ramadas Pantulu: The Land Alienation Act is in force in one or two provinces only. I am not in favour of it myself. The Act serves two purposes. One is to see that credit is restricted in the case of certain communities which abuse credit. The second purpose is to prevent land in agriculturist hands passing into non-agriculturist hands. There is no Land Alienation Act except in the Punjab and Bundlekand. It is not a question of banking at all. They are not touched by the Land Alienation Act.

Dr. Jeidels: I have only suggested that in some cases the Land Alienation Act prevents credit to the agriculturist against mortgage. It is not for me to say whether the Land Alienation Act is good or bad; but if you wish my personal opinion, not that of a banker, I am very much in favour of the Land Alienation Act. I would prefer to part with a certain amount of banking facilities than part with the Land Alienation Act. Banking is a voluntary affair; if you have laws which make some kind of banking difficult, then you have to weigh the importance of increased banking facilities against the other needs involved. I can fully realise that in many

cases the legal position, should remain as it is; then one has to accept the consequences and to dispense with some banking facilities, which may on the whole be less important. I certainly do not recommend the removal of the Land Alienation Act. I only argue, that clean credits for commerce and industry and loans against land mortgage are valuable banking facilities in other countries. But you should not expect Western banking methods for all Indian conditions. I only suggested to investigate whether a small change in the Land Alienation Act could perhaps help to make such banking facilities available. If I were asked whether the Land Alienation Act should be abolished in favour of increased banking facilities, I would say by no means.

Chairman: The real point is whether this statement made in the memorandum is a correct statement or not, and Lalaji, from your experience in the Punjab, you think that the statement is correct?

Lala Harkishen Lal: It does not arise. He says it may be considered if you like. I quite agree with that.

Mr. Ramadas Pantulu: In regard to banking facilities, this does not operate as an impediment. It is to restrict people governed by the Act from getting credit. The communities to which the Act applies are not commercial or industrial communities who go to the bank for credit.

Chairman: That is a question of fact. That is the reason why I put the question to a practical banker (Lala Harkishan Lal) and he admitted that the disability is there. Because the Land Alienation Act is there, if the person goes to Lalaji's bank, he would not get credit. Whether that man should get credit or not is a different story. From the banking point of view the impediment exists, and that is all that Dr. Jeidels was referring to. Whether the impediment was put in deliberately by the State for certain purposes is a different proposition altogether.

Ch. Mukhtar Singh: The inference that the Land Alienation Act should be revised is not correct. In the first place it does not apply to the whole of India. It applies only to the Punjab and to two districts in the United Provinces. The statement that tangible security in merchandise has to be given on account of the Land Alienation Act is not correct.

Chairman: I am pretty sure that all that is in Dr. Jeidels' mind. We shall discuss it later on.

Ch. Mukhtar Singh: We say this is not correct because the Land Alienation Act applies only to one province and only to two districts of another province. The thing remains unexplained. That is the point.

Chairman: The thing remains unexplained in this sense that Dr. Jeidels has not referred to all the legislative enactments in force, it may be because he is not so much conversant with conditions in India as you and I are. If I were to write this paragraph I should not refer to the Land Alienation Act but to the tenancy laws in the various provinces. This point is quite good. He says, if you want to have security other than quickly saleable merchandise, that security can only be the land, and, therefore, his argument is that if there is any legislation which operates as an impediment to the easy transfer of that land, that legislation must be amended. That is his point.

Ch. Mukhtar Singh: I think not.

Chairman: I am pretty sure that is his point.

Ch. Mukhtar Singh: It may be so, but let him explain it.

Chairman: He has explained it. Mr. Ramadas Pantulu understands it in the way I understand it. I admit that there is a want of exactitude in the words used by Dr. Jeidels, but that, as I say, arises from the fact that he knows less about conditions in India than you or I do. We all know what is there. It may be that the Land Alienation Act is confined to the Punjab, but what about the tenancy laws?

Ch. Mukhtar Singh: Tenancy law does not arise at all.

Chairman: He is referring here to the agricultural credit required by the raiyat, not by the merchant.

Mr. McDougall: I was informed in the Punjab that not only was the Alienation Act an insuperable obstacle to get over, but even with regard to letting land the law was such that it took them at least two years to enable them to endorse the decision of a court. I should like to know if that is correct or not.

Chairman: We can discuss that when we come to rural credit. The matter is dealt with in the Punjab report. If you will read the Punjab report there is a very interesting paragraph there about it. Dr. Jeidels knows much less about the conditions of the country than we do. He gives this as an illustration. If he were wrong absolutely I would have asked him to modify it. That is the reason why I said, "Please question him on it" as soon as Lala Harkishen Lal, with his banking experience in the Punjab, said that he could not take exception to the statement. Of course the statement may not be full. Of course he says "especially the Land Alienation Act". As the words stand he is quite correct, though he might have said "the Land Alienation Act and the Tenancy legislation have to be revised".

Lala Harkishen Lal: And many others.

Mr. Ramadas Pantulu: With regard to the commercial banks in Germany do they render any help to the agriculturist?

Dr. Jeidels: Generally speaking, the smaller agriculturists have their own organisations, on which you will hear when co-operative credit societies are discussed. There is practically no branch of the larger German banks in towns with less than 10,000 inhabitants, which shows you that business of these banks with smaller agriculturists is very unimportant. In Germany there are many large agriculturists and these get credit from the commercial banks but certainly not for purposes of a permanent character. Generally speaking, this field is less cultivated by the commercial banks outside of financing the crops.

Dr. Hyder: That was precisely why you wrote this paragraph.

Dr. Jeidels: Because I found in many evidences complaints that bankers did not give credit to the agriculturists.

Dr. Hyder: I ask you one simple question, whether according to your great experience and knowledge, agricultural credit is expected from commercial banks?

Dr. Jeidels: I would not say so, but apparently it is expected by many people here; otherwise I would not find in the evidences so many complaints that the banks do not give credit to the agriculturists. It is a quite interesting fact, that even with highly developed branch banking commercial banking slows down in speed where it approaches the agriculturist and having financed seasonal needs it stops entirely at the

outskirts of small agriculture. There some other credit agencies step in of which you will hear more when rural credit is discussed.

Chairman: Therefore, in spite of that particular disability you mention in Germany your commercial bank does not reach the agriculturist?

Dr. Jeidels: Not to a large extent.

Chairman: This loses its force then, because even if we were to change the law of the country and modify Land Alienation Acts and whatever other legislation may be there, even so the commercial bank is not likely to reach the agriculturist to any appreciable extent?

Dr. Jeidels: Just a minute. I want to repeat that I discussed the subject, not because I cherish the field of agricultural credits but owing to the complaints I found in practically all provincial reports and in much of the evidence against the banks for not giving agricultural credit. The question whether I advocate the expansion of banking far into the agricultural field has not been put to me: but if I put it to myself, I could not particularly recommend it.

Mr. Ramadas Pantalu: Do not banks give crop loans?

Dr. Jeidels: They get credits in spring against the prospective crop.

Chairman: From commercial banks?

Dr. Jeidels: Yes, to a certain extent, but that is what I call the outskirts of agriculture. It is credit against merchandise, but there are no warehouse receipts, because the credit is given for the crop at a time when there is no crop, it is given in order to raise the crop. The banks do not really cultivate this business, and it is not necessary that they should, because we have special credit institutions for this purpose which they serve very much better. I do not like to go into this matter which is a field for the specialist. Agricultural credit is something which in every country of the world ought to be organised for itslf; it ought less to appeal to the general banking of the country.

Dr. Jeidels: If I had known there would be any misunderstanding on the subject, I would never have inserted the sentence in the memo. I only wished to defend the bankers against the reproach which I have read in various reports that they are not doing agricultural credit business. I do not see any objection to leaving that clause out entirely.

Lala Harikishen Lal: You mention just one fact that has come within my knowledge. Two Indian States have asked me to open branches of the Peoples Bank in their territories to help agriculturists and to take the agricultural land in security. My reply to that was that if they were able to provide special facilities for recovery, we would be quite willing to come to their States and advance money on agricultural land and agricultural produce.

Dr. Jeidels: I suppose there will be ample opportunity to discuss all kinds of agricultural credit under Rural Credit.

Dr. Hyder: Would you delete this sentence?

Dr. Jeidels: This is an *aide memoire* to help our discussion. You can scratch the whole part out. May I make a general remark? I am expected to give you an opinion mostly on the ground of printed material submitted to us. If the printed material did not contain anything on the subject, then of course I would not have mentioned it, because I myself consider

agriculture as uninteresting for commercial banks. But in the printed material which was submitted to us as the starting point of our expert advice it has been mentioned. I therefore considered it proper to take an opportunity to say that if you want agricultural credit, then it would be useful if you had certain legal conditions removed. Otherwise I do not attach any value to the subject at all.

Chairman: It might meet everybody if these words were added after the words "is expected from the banks":—"and such arrangement will be discussed elsewhere", because it is going to be discussed elsewhere. That would meet you, Dr. Hyder?

Dr. Hyder: Yes, provided it goes on the record that, according to his knowledge and experience, especially in Germany, agricultural credit is not in the domain of normal banking.

Mr. Manu Subedar: The memorandum represents the views of everyone and if any one of the other gentlemen disagreed with Dr. Jeidels, they would promptly express their different views as Dr. Trip did this afternoon on one or two points. I understand that is why the record of what Dr. Jeidels says is going to be very important.

Chairman: Dr. Jeidels has mentioned his personal opinion on that point.

Mr. Manu Subedar: I take it generally that what is being said expresses the view of every one.

Chairman: I do not know about that in this particular matter.

Dr. Hyder: Dr. Jeidels, according to your great knowledge of Jugo-Slavia, Roumania and Eastern Europe is agricultural credit expected from commercial banking?

Dr. Jeidels: I would not like to give you definite information, but a country like Jugo-Slavia has, I think, only a small number of towns of importance and the banks do of course a great deal of business for financing agricultural produce.

Dr. Hyder: But my information—I had the privilege of working with a gentleman from that country at the Economic Conference of 1927—is that they have precisely these Land Alienation Acts but not in this form.

Dr. Jeidels: They have such laws in many countries. Generally speaking, it has always, from a national point of view, been considered most important to keep the agriculturist on the land instead of making him a member of the proletariat. As an economist, if I were asked, I would probably be in favour of some form of Land Alienation Act, but that it should be a reasonable Act. I am sorry if it would be tried to misconstrue the sentence of the memorandum.

Mr. Ramadas Pantulu: Can you tell me whether agricultural paper which is not backed by produce is discounted by commercial banks?

Dr. Jeidels: Promissory notes are not discounted in Germany. If a merchant sells to a flour mill or a small grain merchant sells to a larger merchant he does it by way of the bill.

Mr. Ramadas Pantulu: What kind of help do the commercial banks give to co-operative banks?

Dr. Jeidels: The agricultural co-operative societies have their own bank. One of the two co-operative organisations, that for non-agriculturists small merchants, retailers artisans, use one of the German

joint stock banks as their apex bank. This bank has established a special department as an apex to that organisation, holding the cash balances of 1,300 societies with a membership of about one million.

Ch. Mukhtar Singh: Can you give us an idea as to the expenditure on the branches of your commercial banks?

Dr. Jeidels: It depends on the size of the branch. The smallest branch may employ from 10 to 15 employees. I could try to estimate what it probably costs.

Ch. Mukhtar Singh: I do not want to go into details, but roughly.

Dr. Jeidels: Many branches have 300, 400, 600 employees. The large banks in Germany have together about 1,100 branches. I cannot tell you what is the smallest one; most of them are comparatively large.

Ch. Mukhtar Singh: I am simply asking you this question because it has been urged before us that the cost of working a branch in India is very high and, therefore, branches are not being ramified.

Dr. Jeidels: I think I can say that many smaller branches are not being run at a profit.

Ch. Mukhtar Singh: What will be the cost of maintaining the smaller branches?

Dr. Jeidels: May I suggest that I give this answer afterwards—outside the meeting?

Ch. Mukhtar Singh: What means do you adopt to rope in the villages or other places which are a bit further from the town in which you have a branch? What agency will you maintain to get your clients from those places or to get into touch with those people?

Dr. Jeidels: Commercial banks do not as a rule have branches in towns with a population of less than 10,000 inhabitants. I therefore do not think they are much interested in going into business in the villages.

Ch. Mukhtar Singh: You do not maintain your agents or anybody there?

Dr. Jeidels: The distances with us are not as large as in your country.

Ch. Mukhtar Singh: Do you consider that the fact that there are very few banks in India is due more or less to the illiteracy of the people?

Dr. Jeidels: The smaller banking facilities? Yes. For the banking world I count the population only as far as it can read and write.

Ch. Mukhtar Singh: You do not consider the other people?

Dr. Jeidels: Yes, as most valuable citizens, but not as banking clients.

Ch. Mukhtar Singh: Therefore, in order to get better facilities for banking in the country, we should first remove illiteracy?

Dr. Jeidels: I think so. Technically it is not possible to make an illiterate a bank's client.

Ch. Mukhtar Singh: You have said that there is more money invested in Government securities in India than elsewhere. Is it due to the fact that the interest granted on Government securities is very high?

Dr. Jeidels: It is a doubtful attraction, but it is one of the attractions —I believe so. But I do not think it is the sole or even the principal

reason; it is a minor reason. With the liquid part of a Bank's assets interest yield also counts, but it ought not to count as much as the quality of the investment as being liquid.

Ch. Mukhtar Singh: If a Bank has more money invested in Government securities, the public will have more confidence in the Bank?

Dr. Jeidels: Yes. It is easy for the public to understand this kind of liquid assets. The general public know little about balance sheets and seeing that a bank has invested considerable amounts in Government securities, they feel that the banker is not devoted to speculative or unsound ventures. When the public are sufficiently educated to the character of commercial bills and if they know that there is a central banking institution which takes care of the bill market and offers the possibility for re-discounting bills, then the public accept this kind of liquidity. I think that in this country, like in England and elsewhere there will always remain a certain amount of liquid reserve invested in Government securities. I have remarked that Government securities ought to be considered as an additional reserve. It is perhaps not even sound that banks should have their liquid assets entirely in one single class.

Ch. Mukhtar Singh: Am I correct in understanding that you feel that because India is an agricultural country therefore banks insist upon tangible security?

Dr. Jeidels: You will realise that in all countries where agricultural produce plays a large part in the economic life banking credit attaches to merchandise. In Australia and South Africa, which are wool growing countries, banking system somehow attaches itself to those commodities. Germany or Belgium are industrial countries; there banking attaches itself more to manufactured goods. Please take this as a very general remark.

Ch. Mukhtar Singh: Do I understand that in Canada, Australia or Denmark, where the people depend more or less on agriculture, the same sort of tangible security will be taken?

Mr. Cassels: There are very few unsecured loans. Ours is predominently an agricultural country.

Ch. Mukhtar Singh: And they take the merchandise as a tangible security in some cases?

Mr. Cassels: Oh, yes.

Ch. Mukhtar Singh: Do they take the security from the merchant and the agriculturist?

Mr. Cassels: The banks finance the farmer. The farmer has sold his crop to the merchant and then the bank finances the merchant.

Ch. Mukhtar Singh: In financing the merchant the bank will not insist upon having the agricultural produce as a tangible security?

Mr. Cassels: Oh, yes.

Ch. Mukhtar Singh: Then there is nothing peculiar to India in taking the agricultural produce as a tangile security?

Mr. Cassels: No.

Mr. Ramadas Pantulu: Do commercial banks in Canada lend any money to the agriculturist otherwise than on security of the produce?

Mr. Cassels: They begin very often by lending the farmer money to buy seed, and there is a special form by which the bank secures itself for the money which says that the crop belongs to them. This security follows the growth of the seed.

Mr. Ramadas Pantulu: The Bank has a lien upon the produce to the extent that it finances the seed?

Mr. Cassels: Yes, and the farmer keeps the balance.

Ch. Mukhtar Singh: In the case of an industrial concern, they will not insist upon the manufactured goods being taken as tangible security?

Dr. Jeidels: This is a new question. The banks will in many cases.

Mr. Devadhar: Have you in your country any Acts which legally restrict the credit of the classes?

Dr. Jeidels: Will you make the question a little bit clearer? Formally certain special landed estates were kept in the family. I think the law has been modified in this respect.

Dr. Friderich: Our constitution of 1919 after the revolution removed this kind of agricultural estate. In former times it was only the eldest son of a family who could inherit the estate. The other sisters and brothers were only entitled to a sum of money. It was forbidden for the holders of the estate to sell any portion of his estate. Therefore this law was removed.

Mr. Devadhar: The Imperial Bank grants loans for a period of six months? Will you consider it reasonable to extend the period of credit for one year?

Dr. Jeidels: In practice I would. I am much in favour of removing all kinds of restrictions; but I doubt whether the Imperial Bank in practice would give longer credits than for six months.

Mr. Devadhar: You speak about the secrecy. Is it common to human nature?

Dr. Jeidels: It seems to be a peculiarity of Indian nature. The Western business world has done away with many kinds of secrecy, which I admit, is to an extent rooted in human nature.

Mr. Devadhar: Is it due to comparative prosperity?

Dr. Jeidels: It may be.

Mr. Devadhar: If there were foreign banks in your country, your own countrymen would not deny to give information?

Dr. Jeidels: I think my bank probably gives 20 to 30 pieces of such information to foreign banks every day. It is one of the services of banks.

Mr. Devadhar: This secrecy is the product of poverty?

Dr. Jeidels: It may be due to the agricultural character of the country, but also largely to lack of education.

Mr. Devadhar: You consider then that spread of education side by side with banking facilities would be one of the things to consider?

Dr. Jeidels: I think so, generally speaking.

Mr. Devadhar: One depends more or less on the other?

Dr. Jeidels: Yes:

Mr. Devadhar: You seem to have no soft corner for money lenders. Was there at any time in Germany in the past a money lending class and has that class died out?

Dr. Jeidels: I think it has died out. From time to time you find same sort of individuals charging excessive rates of interest.

Mr. Devadhar: Have you law against usury?

Dr. Jeidels: I cannot say, but will try to find out.

Mr. Manu Subedar: You have your pawn shops and the rate of conversion is fairly heavier?—

Dr. Jeidels: Once in my early days I had to use a pawn shop in Chicago, U. S. A.; they charged me 5 dollers a day for 50 dollars.

Mr. Manu Subedar: Have you any rate fixed by legislation? There is the law of Damduput in India, whereby the interest cannot exceed the amount of the principal.

Dr. Jeidels: We have no law at the moment, but excessive rate of interest would, under the general civil law, be void.

Mr. Manu Subedar: If the accumulated interest amounts to more than the interest, then it is not allowed. There is no such thing in Germany?

Dr. Jeidels: No. I hear that the law of Damduput does not work.

Mr. Devadhar: It is obsolete. You say that an important problem is the use of vernaculars. You are in favour of vernaculars being adopted?

Dr. Jeidels: Yes. I am in favour of extending their use.

Dr. Jeidels: I would wish to see anything removed in the country which stands in the way of normal banking. On vernaculars a gentleman in Madras entreated me quite earnestly, how important it is, to give vernaculars the field which it deserves and to standardise it. I think it is necessary to remove illiteracy in every form; if a man writes a script which one cannot read or understand, it is from the banking point of view illiteracy.

Dr. Hyder: Would you suggest to us, Dr. Jeidels, what practical steps should be taken for a bill market, for the use of bills?

Dr. Jeidels: I would suggest that the money market and the bill market be discussed together.

Mr. Manu Subedar: You say that the Imperial Bank serves as banker's bank to satisfaction. To whose satisfaction?

Dr. Jeidels: To the satisfaction of joint stock banks, at least I have the impression that it is so. The discussion of the money market may bear out if my impression is correct.

Mr. Manu Subedar: I am trying to know from where you derived this impression?

Dr. Jeidels: There is no Reserve Bank at the moment. The question is. is commercial banking hampered by that to such extent that the arrangement with the Imperial Bank proves unworkable. Is commercial banking really so much hampered by it that one must call if unworkable? The joint stock banks have after all a banker's bank, they know where to

go, if they want to borrow or to re-discount. I think I have said myself that it is not quite convenient to use the competitor as banker's bank.

Mr. Manu Subedar: The statement is that the Imperial Bank renders service to the joint stock banks to their satisfaction?

Dr. Jeidels: I believe it is so.

Mr. Manu Subedar: Have you had any talk with joint stock banks on the subject?

Dr. Jeidels: I have talked to so many people in the country that I really do not know the single instances.

Mr. Manu Subedar: I take it that your colleagues and yourself have seen the evidence placed before us. Is it the impression gathered by all your colleagues also that the joint stock banks are satisfied with the service which the Imperial Bank gives to them?

Dr. Trip: I have the impression that the banker is never fully satisfied. Bills are only re-discounted from approved customers. That was agreed. I cannot say whether the belief is justified or not.—I gathered that from the statements of evidence.

Mr. Manu Subedar: That is not the impression which some of us have formed. Joint stock banks have not expressed themselves satisfied with the service of the Imperial Bank as Bankers' Bank.

Dr. Jeidels: We shall be interested to hear something about it, if it is the case.

Mr. Manu Subedar: I put it to you I do not consider this inference justified. Do you consider it justified?

Dr. Jeidels: It is certainly not an ideal arrangement, but I think the lack of a Reserve Bank is more felt from other points of view. The question is, whether commercial banking is really hampered by the fact that not a Reserve Bank but the Imperial Bank acts as Bankers' Bank, and on this my opinion is that joint stock banking in the country is really not much hampered by the fact that the Imperial Bank serves as Bankers' Bank.

Mr. Manu Subedar: When you say Bankers' Bank, what do you mean?

Dr. Jeidels: A banker's bank is a bank which is at other banks' disposal, if they wish to borrow or to re-discount.

Mr. Manu Subedar: Are you aware of what facilities the Imperial Bank give?

Dr. Jeidels: They give facilities by way of re-discounting bills and also of loaning against Government securities.

Mr. Manu Subedar: With regard to the latter point, you are quite correct, but with regard to the re-discounting of bills, it is for the Imperial Bank to say. My impression from the examination of the Imperial Bank people was that re-discounting did not form an ordinary process.

Mr. Lamond: Bills must come to the banks.

Dr. Jeidels: It is done by every Central Bank in other countries.

Mr. Manu Subedar: With regard to your country, what is the re-discounting rate?

Dr. Jeidels: The same for everybody. There is only one bank rate, for large as for small banks.

Mr. Manu Subedar: What does the bank rate signify in your country?

Dr. Jeidels: One can discount bills, which comply with the provisions of the law, at the bank rate with the central banking institution.

Mr. Manu Subedar: It may be a private paper, a bank bill or trade bill. The rate will be the same?

Dr. Jeidels: Yes.

Mr. Manu Subedar: In London it is not the same for both?

Dr. Jeidels: Regulations differ.

Mr. Manu Subedar: In your country is the bank rate one at which approved bills could be discounted including bank bills?

Dr. Jeidels: Yes.

Mr. Manu Subedar: What is the deposit rate?

Dr. Jeidels: It is generally lower than the Bank rate. It depends very much on conditions prevailing in a certain period. It is generally below and I think I answered that question before.

Mr. Manu Subedar: At what rate would a private bill with two signatures, one merchant on another, be discounted by his own bank?

Dr. Jeidels: It depends; sometimes above the bank rate, *i.e.*, the bank rate and a small commission; sometimes below the bank rate. When liquid assets with private banks are large, bills below the bank rate flow to the vaults of the private banks instead of being discounted with the Central Bank, which in its turn will probably reduce the bank rate in order to attract bills.

Mr. Manu Subedar: That is not the normal thing. The normal thing is above the bank rate?

Dr. Jeidels: Generally the Central Banking Institution tries to keep as close to the private banks as possible. If they can discount below the bank rate or if all bills flow to the Central Bank, it shows that the bank rate did not follow the receding or the rising market respectively.

Mr. Manu Subadar: In re-discounting bills does the bank make money or is it merely a facility to increase its liquid resources?

Dr. Jeidels: If the banks are of the opinion that the bank rate will go up, then they make money by re-discounting. Banks generally, however, do not re-discount; they feel that they ought to use the Central Bank as little as possible.

Mr. Manu Subedar: If that is so, do you expect the position to be materially different in India, Banks in India are reluctant to re-discount.

Dr. Jeidels: I hope so.

Mr. Manu Subedar: If that is so, why do you lay such stress on the establishment of a Reserve Bank to create a bill market?

Dr. Jeidels: In order to create a real bill market and to regulate the rate of interest; it would bring a regulating factor into the money and bill market. I would suggest that this be discussed on the money market problem.

Mr. Manu Subedar: I am quite willing to leave off that aspect to that stage, but with regard to the relation of the Imperial Bank with the other joint stock banks, your remark would I think apply to loans on Government securities, because the re-discounting of bills does not as a matter of fact exist even for the purpose of regulation.

Dr. Jeidels: I do not wish to say anything about the money market now; the present system is neither perfect nor even satisfactory; but commercial banking is not so much nor so immediately affected by having the Imperial Bank as Bankers' Bank.

Mr. Manu Subedar: Bank acceptance may come more into use with the establishment of a Reserve Bank?

Dr. Jeidels: Yes.

Mr. Manu Subedar: When the bank acceptance comes more into use, bank bill may be re-discounted by the Reserve Bank?

Dr. Jeidels: Generally they will not. Bank acceptance of the Imperial Bank should command a rate lower than the bank rate and therefore it will not reach the Reserve Bank.

Mr. Manu Subedar: I quite agree that the Central Bank should aim at securing commercial paper. It has been pointed out that that commercial paper should have 2 or 3 signatures, 2 of merchants and the third bank signature and only such bills should be re-discounted by the Reserve Bank.

Dr. Jeidels: Those are bank endorsements, not bank acceptances.

Mr. Manu Subedar: But from the point of view of the Reserve Bank, that becomes a proper document?

Dr. Jeidels: If it has a bank endorsement; bank acceptance is a different kind of bill.

Mr. Manu Subedar: Bank acceptance is something different when a bill is granted instead of cash credit. But if it is a genuine affair emanating from the transfer of goods, from the sale of goods, then it would be a very proper thing?

Dr. Jeidels: There is no objection, but it will probably not reach the bank.

Mr. Manu Subedar: Why do you lay so much stress on bank acceptance?

Dr. Jeidels: Because bank acceptance is the cheapest form of credit which a customer can get. Bank acceptance is however of no value without a proper money and bill market.

Mr. Manu Subedar: Talking of Government securities, the proportion is unusually heavy in this country. But you did not advocate any measures?

Dr. Jeidels: No.

Mr. Manu Subedar: I put it to you that if the proportion is from 25 to 40 per cent. and the banking capital is above 200 crores—the rest being capital and reserves—40 per cent. of 240 crores would give you 90 crores which in the foundation of banking and credit. If that is locked up in Government securities, to that extent the amount of trade and industry is reduced?

Dr. Jeidels: The question can be answered easily. Government paper can only be replaced by other liquid assets; it cannot be replaced by loans.

Mr. Manu Subedar: How will you replace it? Whether you give facilities to the public, by way of bills, cash credits or loans or secured loans it does not matter, but the facilities go to the public instead of going to Government.

Dr. Jeidels: You must distinguish between the various channels in which it goes to the public. You can only use those channels which are liquid.

Mr. Manu Subedar: From the point of view of the banker, having due regard to liquidity does it not arise this way? If such a large bulk of money goes into the field of Government finance instead of into the field of trade, it may strengthen the position of Government finance, but it would weaken the resources to which trade would look forward?

Dr. Jeidels: If bills are available and there exists Reserve Bank as the last resource to turn bills into cash; only then you will be able to judge, not earlier. Whether Government securities really take the place of commercial transactions, I am unable to say.

Mr. Manu Subedar: In that event, if we have a bill market and proper discount rate, do you think this proportion of 25 to 40 per cent. Government paper would be much reduced?

Dr. Jeidels: I think it would be. It should be reduced.

Mr. Manu Subedar: To the extent to which it will be reduced, would mean that it is replaced by other paper?

Dr. Jeidels: By bills.

Mr. Manu Subedar: To that extent the commercial community would be getting increased facilities?

Dr. Jaidels: Yes, at present there is a lack of bills.

Mr. Manu Subedar: But there is no lack of trade. As the Vice-President mentioned to you the amount of internal trade compared to the amount of foreign trade is 9 times to 15.

Dr. Jeidels: If trade takes the form of bills, then it competes with Government securities.

Mr. Manu Subedar: Let us try to get at common ground. The trade is there. Trade is in need of credit facilities.

Dr. Jeidels: Of bills.

Mr. Manu Subedar: Credit facilities do not exist at present. Credit institutions do not exist at present. Existing banks are not able to reach more than the smallest fringe of the merchants actually engaged in trade.

Dr. Jeidels: You ask whether in my opinion Government securities as investment of banks are a disadvantage to trade. I ask you: are there bills offered in competition with Government bonds? If so, then investment in Government securities works to the disadvantage of trade. But only if the demands of trade take the form of bills offered in the market, the banks have the choice between bills and Government securities. If you or any of the other gentlemen can tell me that there are

bills offered and they are not discounted by the banks because banks have invested their liquid resources in Government bonds, of course the position would be different.

Mr. Manu Subedar: The banks would be better able to explain to you that position, but we had this morning from the Vice-President—who is this year the President of the Imperial Bank, who has many years' experience, who has commercial experience—we had it from him that one of the reasons why bills are not forthcoming is that the banks say we do not know the parties.

Dr. Jeidels: I have not heard the statement.

Sir Purshotamdas Thakurdas: What I said was that bills have been in India years and years back; they are not a new thing but they have been replaced by cash credits which have been considered fashionable and which the banks encourage. That is what I said.

Mr. Shanmukham Chetty: Therefore if bills are not available, it is because banks have not encouraged them. According to the Vice-Chairman bills are not available though they are well known in the country because banks have not encouraged them. Banks have discouraged them.

Dr. Jeidels: It was not understood by the Vice-Chairman in the way in which it has just been used. I do not think there is divided opinion among the experts present about the advisability of trying to create a better bill market.

Sir Purshotamdas Thakurdas: I think I might say this—it is open to any member of the Committee or to any member of the expert group to draw whatever inference he might from my expression this morning. What you are now doing is to say that bills are available. I do not think that is an inference justified from what I said. Perhaps the inference Mr. Chetty would draw would be a more relevant inference from what I said.

Mr. Manu Subedar: If I were to make the position clear, the position I was taking up was this, that the trade is there, the transfer of goods is there and these men who are trading are in need of finance; but being small parties or parties unknown to the banks they are not at present able to get all the finance that they require from such banking institutions as we have. The demand for accommodation and for credit is there. If there were either more banks or more banking capital there is not the slightest doubt that they would find borrowers.

Dr. Jeidels: The banks are not looking for borrowers; they are looking for bills; they are looking for liquid assets.

Mr. Manu Subedar: If a bank were willing to discount my bill but not to give me an advance as credit or any other method of accommodation, you can take it that a merchant would immediately realise that the form in which he would get money is by a bill.

Dr. Jeidels: We want to state matters as they are at present. I would be very glad if the bankers could tell us the amount of bills available; legitimate, regular bills drawn by the seller or the buyer of goods. The amount of those bills is as I understand the situation, not large enough to allow the banks to invest their liquid reserves in those bills. Is that statement true or is it not?

Lala Harkishen Lal: That is a matter of fact.

Mr. Buckley: Quite true.

Mr. Shanmukham Chetty: But those bills are not available because of the banking practice in this country.

Mr. Buckley: Who made the practice, Mr. Chetty?

Mr. Shanmukham Chetty: I think the banks.

Mr. Buckley: No, the banks did not. You ask any merchant whether he prefers to have a cash credit and only pay interest on the amount that he draws or whether he would like to create bills,—say for 5 lakhs and then find afterwards that he could only only use 3 lakhs. The merchant chooses the form of credit that he requires and not the banks. I must take that standpoint; it is not the banks, it is the merchants who decide the business.

Sir Purshotamdas Thakurdas: Mr. Buckley is trying to make out that the merchant is all at fault for this. I submit with great deference that it is not so. If Mr. Buckley says that the merchants insist upon it, why have not the merchants succeeded in the same way in Germany or in England? It is this way. You, gentlemen, are relying upon our experience of facts in India as they are, and facts should be submitted to you correctly. That is why I am now questioning Mr. Buckley's point. It is very necessary to my mind that we should get a view of the picture as we both see it.

Mr. Buckley: Excuse me, I have no desire whatsoever to give a wrong impression to the experts.

Sir Purshotamdas Thakurdas: I am not saying that you are. I am trying to meet the point. The fact is the *hundi* was known in India 100 years back. Why did it get into disuse? I will not trouble about literature and books about it. I belong to a family which had a lot to do with it. I can show you bills 40 or 50 years ago in my firm, but to-day there is not a quarter.

Mr. Lamond: The bill business 25 years ago was bigger than it is to-day.

Sir Purshotamdas Thakurdas: My point is this. Mr. Buckley was trying to make out that the merchants prefer it and the banks have no option. Then, Dr. Jeidels, you and my friends in London have done a great disservice to your country in not letting merchants have what is to their advantage. It is therefore that I suggested that, if there is a fault to be placed, it has to be divided. Do not put on the merchant and say the merchant will not have it.

Dr. Trip: We must try to come to the reason which is at the bottom of the decline of the use of the *hundi*.

Sir Purshotamdas Thakurdas: The banks show a preference for cash credit advance to bill advance. It was fashion; that is all.

Mr. Lamond: The banks wanted to see the produce behind the advance.

Sir Purshotamdas Thakurdas: Don't they see that in other countries? If 40 years ago they had said "We will discount your bills backed by produce," that would have been in vogue.

Mr. Cassels: The bills sold in the London market have no security attached to them. The reason they prefer bills is that they can go and discount them.

Sir Purshotamdas Thakurdas: We have very big discount markets in upcountry centres—I am speaking of my part of the country—in Surat, Broach and Ahmedabad, and those centres to-day are comparatively inactive.

Mr. Lamond: Take 25 years ago, in a place like Karachi, we had a great number of endorsing shroffs and a very big business was done in the bazar. The endorsing shroff seems to have disappeared.

Sir Purshotamdas Thakurdas: Why? The endorsing shroff did exist the same as your discount houses in London. They have slowly disappeared. Why? Because, as the banks' advance was shifted on to cash payments, their turnover decreased.

Mr. Lamond: He paid 9 per cent. or 8 per cent. and the endorsing shroff discounted it at 1½ per cent. less.

Sir Purshotamdas Thakurdas: Therefore your point is that cash credits are cheaper than bills.

Dr. Jeidels: With cash credit the borrower can select the length of time, for which he borrows.

Sir Purshotamdas Thakurdas: Therefore, is it a fair inference that the system of bills which is in vogue in your country is more oppressive to the borrower than the system of cash credits here? Do you agree to that? No, you would not agree to that. The only inference then would be that the system of bill advance which is in vogue in Germany is to the disadvantage of the borrower and to the advantage of the lender. I am only putting the reverse of what Mr. Buckley has been putting to us. You cannot agree to that?

Dr. Jeidels: I would like to offer my practical experience by way of illustration. Whenever the money market is easy, we banks have difficulties to get bills. Our bills are generally, 90 days' bills, corresponding to the habits of credit in trade between buyer and seller of goods; in India with less extended credit in trade the bills are shorter. If our customer discounts his bills, he borrows for three months, but he needs the money only for say 4 weeks. As banks are eager to get the three months' bills, we then offer him a possible discount rate, below bank rate. But still he will not discount with us, but will probably deposit the bills and take a four weeks' cash credit. This is the way in which discounting of bills and cash credits compete in banking, and similar conditions may prevail here also.—If I may make the suggestion, this question of building up a bill market needs further and separate discussion; why bills existed formerly and have now disappeared in this country. I do not think it will be disputed that a more extended bill market should be encouraged. But what Mr. Subedar suggests is that the banks would be willing and in a position to buy bills if they had not to buy Government bonds.

Mr. Manu Subedar: What I am asking you is a very simple question, namely, that the total banking working capital to-day being 240 crores or 260 crores and 25 to 40 per cent. of this being in Government securities, that much money, which is in Government securities, is more

or less closed out from coming into the channels of trade and industry, whether in the form of bills or in any other form. Is that so or not?

Dr. Jeidels: That is absolutely not so, in my opinion. The banks, I may say, would prefer bills to Government bonds.

Mr. Khaitan: Is that your statement that the banks here would prefer to have bills to Government bonds?

Mr. Shanmukham Chetty: That will have to be verified.

Mr. Khaitan: Whatever the bankers may say, we as merchants know the opposite.

Dr. Jeidels: Do you know cases, where bills were offered to banks and have not been discounted?

Mr. Khaitan: There is no occasion to offer bills, because they would not be discounted. I do not mean to say that the manager would go round to the offices of merchants and canvas for bills. I am not suggesting that, but the fact remains that there is an impression abroad even amongst rich merchants that if they offer bills to banks, they would not be discounted.

Mr. Jeidels: Have they asked in one case and has it been refused?

Mr. Khaitan: Why then is there this impression among the mercantile community?

Mr. Lamond: Talking about this investment of securities, a bank must have a certain amount invested in securities. Take the Provincial Bank of Ireland. Their investments are 7,700,000 in Government securities and 7,300,000 in advances. Who is going to decide what percentage should be in Government securities? Here is a bank which considers that it should have 50 per cent. in Government securities.

Mr. Khaitan: With the greatest deference to Mr. Buckley's country, which I love, and without meaning any offence, I can say that we do not want that Ireland should be taken as model.

Mr. Manu Subedar: The heavy investment of banking resources in Government securities is made a ground by these gentlemen to stigmatise this country's banking system as a comparatively undeveloped banking system. Therefore, I take it that Ireland would also come under the same reproach?

Mr. Lamond: I hear also that the Canadian banks have a large holding of Government securities.

Mr. Khaitan: Has Dr. Trip shown you the slip which he received from Sir Purshotamdas Thakurdas containing the numbers of provincial Indian Chambers of Commerce and the number of firms who are known to the bank?

Dr. Jeidels: Excuse me, in this connection it is not so much the question of whether the banks know the merchants, but whether the merchants know the bank.

Sir Purshotamdas Thakurdas: I do not think that this enquiry would lead to anything. Would you not take things as they are? The fact is that there are no bills available owing to the bank not discounting.

Dr. Jeidels: I perfectly agree that there are no bills available, but why they are not I have not found to be satisfactorily explained.

Mr. Manu Subedar: That is not the position. The position we are discussing is that in the event of the Reserve Bank being formed this proportion of Government security would diminish, and I am trying just to get this admission from Dr. Jeidels that, if the investment of banks in Government securities diminished, what would happen to that money? That money would go to trade.

Dr. Jeidels: Excuse me, it would not.

Mr. Manu Subedar: Where would it go?

Dr. Jeidels: Will you tell me why the banks in your opinion buy Government bonds?

Mr. Manu Subedar: You are here to answer my questions; I am not here to answer yours.

Dr. Jeidels: If this rule is established I will not answer any question of Mr. Subedar. We are consulting here; we are not witnesses. I tell you in the most friendly spirit, Mr. Subedar, that it is a great pleasure to me to answer your questions because they are very interesting; but if you say you are entitled to put questions to me but I am not entitled to put questions to you, then I shall not answer yours and you need not answer mine.

Mr. Manu Subedar: When I prepare a memorandum and submit it to the Committee I shall certainly answer any questions put by you. You are under examination at the present moment.

Dr. Jeidels: No. I should like to have our position cleared.

Chairman: It is a consultation and I think every other member here was courteous enough to answer any questions put to him by Dr. Jeidels in the course of that consultation, and I think courtesy demands that Mr. Subedar should treat Dr. Jeidels in a similar manner.

Mr. Manu Subedar: What is your question?

Dr. Jeidels: You say that the banks are not in a position to buy trade bills, to invest in a commercial liquid reserve—to give it this definition—because they invest in Government bonds. I said they invest in Government bonds because they have no liquid commercial investment. You contested that. Now I ask you why, in your opinion, do the banks buy Government securities?

Mr. Manu Subedar: I do not contest that they at present invest in Government securities because they have not such assets on which they can immediately raise money. Also the yield of Government securities is very considerable, sometimes actually higher than the rate at which they can raise their deposits.

Dr. Jeidels: Now we come much nearer to the point. You say that practically there is no real bill market while there is always the possibility of getting loans on Government securities.

Dr. Hyder: As regards this matter, I want to ask Mr. Lamond a question. Is it a fact that when the Imperial Bank have to borrow from currency they go round to their customers and say: "We want you to sign bills; we pay the stamp duty?"

Mr. Lamond: We have to do everything we can to establish the bill habit, even to paying the stamp duty.

Dr. Trip: May I for a moment intervene? That question and other questions with regard to the Imperial Bank, the money market and the bill market will be discussed in my memorandum. I can, of course, withdraw my memorandum but if you want that, it is better to postpone this discussion until the memorandum is before you.

Mr. Manu Subedar: The only point I was trying to make is: Here is a characterisation of the Indian banking system as undeveloped. The terms of reference to this Committee include the development of Indian banking. We have therefore to find out the means. You, gentlemen, are invited here to assist us in that process. Now, the main reasons which Dr. Jeidels finds for this state of affairs are two. One is the excessive investment in Government securities and the second is loans against tangible security. We have to consider what we can do. The only point I wanted Dr. Jeidels to give his opinion upon was that if something could be done—and in his opinion the Reserve Bank would probably secure that result—by which the amount of Government security in a bank's balance sheet could be reduced consistent with safety and conservative banking, if something could be done by which the holding of Government paper could be reduced, the money which will be realised in this manner would then go to the bank's clients, that is trade and industry. That is the point.

Dr. Trip: If they could place it.

Mr. Manu Subedar: They have to take it consistent with the bank's rules and in a form in which the bank would be willing to lend it. That is the whole trouble. Is not that so, Dr. Jeidels?

Dr. Trip: There is only one thing, that there would be competition between the Government paper and the trade paper. The Government wants money; if the Government cannot get the money outside the country they have to take it in the country.

Mr. Manu Subedar: And the rates at which commercial advances could be secured would tend to go down. That would be the position other things being equal.

29th January 1931.

Chairman : When we adjourned yesterday Mr. Manu Subedar was referring to the following :—

> " If agricultural credit other than against clear tangible security in quickly saleable merchandise is expected from banks, then especially the Land Alienation Act has to be revised so as so protect legitimate bank loans."

Now it is perfectly true that in certain tracts of the country there is the Land Alienation Act, or there are tenancy laws which stand in the way of the ryot producing tangible security other than quickly saleable merchandise. At the same time there are large tracts, say, in Madras Presidency, where the peasant enjoys the fullest right in his land. It is, therefore, possible for him to produce tangible security. But even so, commercial banks do not touch him, and if the sentence were to stand it is likely to be subjected to severe criticism as not being a correct statement applicable all over the country, and although yesterday I suggested that the position might be improved by a slight addition to the sentence, I have on reconsideration come to the conclusion that the sentence had better be omitted.

Dr. Jeidels : I welcome your suggestion. The sentence may be misleading ; I prefer to omit it. We have discussed the subject and know now what the situation is in my country, how it compares with other western countries and how with India. I believe to have explained the point sufficiently yesterday.

Mr. Manu Subedar : You know the yield on Government paper in India, and you know its relative position with regard to deposit rates, that is, rates at which banks take deposits. Having regard to the facts do you think that investment in Government paper by banks is altogether on the point of its liquidity ? It may be because the yield is good and they earn something.

Dr. Jeidels : I think it plays a part that the investment is as profitable as possible.

Mr. Manu Subedar : If the yield on Government paper went down, do you think the holding in Government paper will automatically be reduced ?

Dr. Jeidels : I think so. The quotation for Government paper has also to be considered. With a reduction in yield there is automatically an appreciation in price, which further stimulates the sale of such securities.

Chairman : Please explain what you are saying. If you are holding Government paper, and if there are no commercial bills offering, what will you do as a practical banker ?

Dr. Jeidels : I would change Government bonds into treasury bills, which are a short term investment.

Chairman : You will convert your holding in long term Government securities into short term treasury bills, and as commercial bills become available, you will replace treasury bills by commercial bills.

Dr. Jeidels : I think so.

Chairman : One other question. When the rate of interest on Government securities is halved, will it not affect the yield on liquid commercial paper ?

Dr. Jeidels : It will.

Chairman : As a practical banker you would be prepared to say that, generally speaking, the yield on commercial paper would follow the yield on Government securities.

Dr. Jeidels : Only of treasury bills. The yield on self-liquidating commercial paper would follow the yield of treasury bills.

Mr. Manu Subedar : Will it follow or be influenced by the yield on commercial paper ?

Dr. Jeidels : The money market determines the rate for commercial bills.

Chairman : If Government, for some reason or other, wanted to raise treasury bills at a particular rate—it has happened in other countries, leave aside India—which might not be the rate in the money market, will the rate for commercial bills respond to the rise in the rate for treasury bills ?

Dr. Jeidels : Generally speaking, certainly.

Mr. Manu Subedar : Having regard to the volume of these two classes of bills, it will depend on the amount of treasury bills thrown on the market at a heavy rate whether the banker will be induced not to take so many commercial bills, but to earn a little more on treasury bills ?

Dr. Jeidels : It depends on the volume of supply as well as on the rate.

Mr. Manu Subedar : If Government was in need of urgent finance, not by way of treasury bills, but by way of long term loans, and offered a big block at a heavy rate—Government of Bombay raised 10½ crores at 6⅛% yield which was an extremely favourable rate from the point of view of the investor—that would attract a lot of money both from the public and from the banks ?

Dr. Jeidels : Yes.

Mr. Manu Subedar : I am asking whether banks would not like to hold this paper.

Dr. Jeidels : I do not think so.

Mr. Manu Subedar : There has been an actual case when the Bombay Government came into the market at a high rate. But supposing the Government of India came into the market at a heavy rate for a large amount, that would attract a lot of public money as well as bank money.

Dr. Jeidels : It would influence the banks more indirectly than directly. It would appeal to the public, and the public will pay partly from bank deposits. This tends to make money scarcer and more expensive. If Government offers a large loan at an attractive rate you will see its effect in the next statement on banks' deposits, perhaps, also of postal savings.

Mr. Manu Subedar : Would the banks themselves take up any portion of the loans ? In this country when the Government float a loan, they are most anxious for the success of the loan as every Government is, and they secure the co-operation of the banks. That co-operation means that bankers give facilities to the public, but should the public not come in, Government would very much appreciate bankers taking a big block.

Dr. Jeidels : Do you wish to know how it is in other countries ?

Mr. Manu Subedar : I am raising a specific point, namely, the influence of Government paper on bank's holdings. You said that if the yield on Government paper went down, the holding of the banks would go down. Now I put the contrary case. If the yield increased, the holding in Government paper might increase.

Dr. Jeidels : It depends largely on the extent to which the public withdraws deposits in order to buy Government bonds. If the banks lose part of their deposits owing to the attractive offer of Government, they are not in a position to buy themselves. Banks do their business with the depositors' money.

Mr. Manu Subedar : If deposits decrease, banks' working capital decreases.

Dr. Jeidels : Yes.

Mr. Manu Subedar : Therefore, the amount banks can loan out is also diminished. Heavy Government borrowing therefore affects the volume of trade in the country.

Dr. Jeidels : Certainly.

Mr. Manu Subedar : And it affects it adversely if the borrowing is too heavy.

Dr. Jeidels : Certainly.

Mr. Manu Subedar : Have you found by your examination of the Indian position that the Government have come into the market in India too heavily ?

Dr. Jeidels : Government is certainly borrowing in this country, as in every other country, much more than it did normally. Government securities absorb, with the exception of a few extremely fortunate countries, at present no doubt a larger percentage of a country's liquid reserves.

Mr. Manu Subedar : Do you know that the postal certificate rates are more attractive than the deposit rates, with the result that they have been eminently successful, but the money raised in this manner, if it was raised by banks, would have gone to the trade, but being postal certificates it has gone to augment the Government finances.

Mr. Currie : I would rather like to question that. Nearly all the money which Government borrows is invested in what is known as industrial concerns, railways and for development of the country. You cannot really say that money borrowed for that purpose is taken away from the trade of the country.

Sir Purshotamdas Thakurdas : I do not think that we should express any opinion as to the right or wrong of the Government borrowing and I do not think it would serve any useful purpose to do so. All that we are concerned with is the effect of Government borrowing on trade and commerce. For what purpose Government borrow we had better leave out.

Mr. Manu Subedar : You say that " both classes of banking investments signify a comparatively undeveloped banking system, but it cannot be doubted that under existing circumstances no change of policy is possible ". By whom ?

Dr. Jeidels : By the banks.

Mr. Manu Subedar : Your reference is directly to the banks themselves. The banks working in their own interests should not do otherwise than what they are doing ?

Dr. Jeidels : They cannot do otherwise than what they are doing.

Mr. Manu Subedar : You say that " no steps must be taken to prematurely encourage the banks to be less cautious and conservative in granting credits". We only deal with general principle. What steps have you in mind ?

Dr. Jeidels : No advice should be given.

Mr. Manu Subedar : All sorts of advice have been given to us by various witnesses and various representatives of banks.

Dr. Jeidels : My opinion is that no advice should be given to the banks, to be less conservative in their loan policy.

Mr. Manu Subedar : You think that under existing conditions commercial banks would not be well advised to grant loans without security ?

Dr. Jeidels : Yes.

Mr. Manu Subedar : Not even collateral ?

Dr. Jeidels : That is different. Is investment in block the object for which the loan is used ?

Mr. Manu Subedar : Your point is that if the block was merely a collateral security for current loans, then it would be perfectly right for commercial banks to grant loans, but if an industrial concern wanted money for capital extensions for capital purposes, it would not be right for commercial banks to do so.

Dr. Jeidels : Yes.

Mr. Manu Subedar : With regard to house and real property, what would be your position ?

Dr. Jeidels : It is good security, but it is not good purpose for borrowing.

Mr. Manu Subedar : The purpose is trade and business. If a man owns two or three houses—valuable property—in a town, would you then recommend a commercial bank to take these documents as collateral ?

Dr. Jeidels : I do not see any objection, if the loan is self-liquidating.

Mr. Manu Subedar : You said that no steps should be taken to prematurely encourage the banks to be less cautious and conservative in granting credits. Those steps have been recommended to us as steps which would make real property form a collateral in the first instance. But supposing an industrial concern weakens, the bank may have to take possession and take steps which would involve the rendering of that process cheaper, easier from the banker's point of view, less costly for realisation, etc. Those steps you are not warning us against ?

Dr. Jeidels : No.

Mr. Manu Subedar : Would any customer refuse his banker full information even under existing conditions ?

Dr. Jeidels : I do not go as far as to say that they refuse information. I have used the expression : " they do not divulge information freely ". I do not know whether it is nice English.

Mr. Manu Subedar : Is it your information that the banker in India wants to know what the customer is doing, what his activities are, what his profits for the last year were, and do you mean to say that the customer would not give information ?

Dr. Jeidels : Not to the extent required, nor of his free will.

Lala Harkishen Lal : He attempts not to give, he dodges.

Mr. Manu Subedar : Is that not human nature all over the world ?

Lala Harkishen Lal : It may be.

Mr. Manu Subedar : I want to know whether anything peculiar exists in India by which we are regarded as primitive and backward people incapable of developing.

Mr. Lamond : Things are improving in the last few years but they are coming in very slowly.

Mr. Manu Subedar : The position may have been like what you have described here.

Mr. Lamond : Still it does exist. There has been a big improvement.

Mr. Manu Subedar : What do you say with regard to their falling into line with western methods ?

Dr. Jeidels : The quicker they do it, the better.

Mr. Manu Subedar : With regard to your firms in Europe, those firms have got a definite and substantial position. There must be some weaker firms. It may be that the firm became weaker after they became your customer. Would the tendency of human nature be the same ?

Dr. Jeidels : Tendency of human nature is the same everywhere, but education has had greater or quicker results in western countries.

Mr. Manu Subedar : You have yourselves ruled out the uneducated from the scope of banking. Therefore we are only talking about the educated people.

Dr. Jeidels : Those who come within the scope of banking do not divulge as far as I have heard. I do not know whether you dispute that at all.

Mr. Manu Subedar : You can only say that, if you were a banker both in this country and in the west.

Dr. Trip : That is our impression from what we have heard.

Mr. Manu Subedar : Some of the impressions are changing. I have spent about seven years of my life in Europe and seen many nationalities, coming into very close contact with many friends. In my opinion human nature is the same all over the world.

Dr. Jeidels : On the information which a customer gives to his banker ?

Mr. Manu Subedar : You say that personal ornaments would not constitute a valuable part of the assets of your clients, but in India they do. A very large class of the people who have a substantial amount of possessions put them into ornaments and ornaments are liquid.

Dr. Jeidels : I paid my compliments to this kind of business.

Dr. Hyder : Do you include silver ornaments or only gold ?

Dr. Jeidels : Principally gold.

Dr. Hyder : No advance is made on silver ?

Dr. Jeidels : I suppose not, because it would require too large a quantity f ornaments.

Sir Purshotamdas Thakurdas : I think what Dr. Jeidels is referring to in his memorandum is gold.

Mr. Manu Subedar : You advocate the use of vernaculars in the various fields of banking. Do you refer to the use of cheque books or pass books ?

Dr. Jeidels : I have only suggested to do something about the vernaculars in order to increase that part of the population which I count as banking clients. Therefore I want to include as many of those who can read and write, even if they cannot read and write a specific vernacular.

Mr. Manu Subedar : Correspondence is one field in which the vernacular is recognised ; that is entirely for bankers concerned. With regard to cheques and pass books, it is for the client concerned to see that the entries are properly made. Do you not think that some of the higher staff would have to learn vernaculars ?

Dr. Jeidels : I suggested that it should be regulated and handled as far as possible on a common basis, so that every single bank in every single locality should cultivate the use of vernaculars on the same standardised basis. It would increase the part of the population, which is available for banking.

Mr. Manu Subedar : But the superior staff of the bank will have to know vernaculars ?

Dr. Jeidels : I do not know, if it is necessary.

Mr. Lamond : We never turn down a bill because it is written in the vernacular. We accept bills in vernacular.

Dr. Jeidels : What I am driving at is this : it is not sufficient that one bank follows a certain policy, however good that policy may be. Banks ought to try to come to an agreement among themselves with regard to vernaculars, as it would increase the possibilities of banking.

Sir Purshotamdas Thakurdas : Dr. Jeidels refers to an important problem in connection with the extension of banking. It is exactly why banks like the Central Bank and other Indian banks have not introduced more vernaculars in banking than exist at present which we have to examine. I do not think our friends on the other side of the table can give any lead on that.

Mr. Manu Subedar : I was trying to understand whether the existence of superior staff not knowing any vernaculars in this country had not something to do with it. I personally feel that it is one of the causes we have to deal with.

Sir Purshotamdas Thakurdas : Dr. Jeidels has put it in as an important problem and let us leave it at that.

Mr. Manu Subedar : In Germany you have the giro system and, therefore, there is no question of any cost for remittance ?

Dr. Jeidels : It costs something, of course.

Mr. Manu Subedar : Who pays the cost ?

Dr. Jeidels : The party who uses it, but I cannot tell you how much.

Sir Purshotamdas Thakurdas : It can be ascertained very easily.

Dr. Jeidels : Yes, but I cannot tell you off hand. We could get the figures. The giro system is the system of remittance administered by the Central Bank and its branches.

Mr. Manu Subedar : Does it cost anything to the banker ?

Dr. Jeidels : It does.

Mr. Manu Subedar : You have no branches of your bank, but the Reichsbank have many branches. If I have an account in Berlin and one in Hamburg, would it cost me anything to transmit my money ?

Dr. Jeidels : It costs you generally two days' interest. If you have a credit balance in Berlin and you draw the money in Hamburg you are charged for the money two days earlier than the day, when you received the money.

Mr. Manu Subedar : When I withdraw from Berlin on the 17th, am I not debited to Hamburg on the 17th ?

Dr. Jeidels : No, on the 15th.

Mr. Manu Subedar : So that the cost of internal remittance in Germany has been brought down.

Dr. Jeidels : I don't know whether it has been reduced recently.

Mr. Manu Subedar : Even between the bank and its client, there is this charge ?

Dr. Jeidels : Yes.

Sir Purshotamdas Thakurdas : It goes to the Central bank ?

Dr. Jeidels : No. Mr. Subedar asks about the inter-branch business, not the payments through the Central bank. There is a charge on these too but I cannot say how much.

Sir Purshotamdas Thakurdas : What the central banks charge to the bank you cannot say ?

Dr. Jeidels : No.

Mr. Manu Subedar : You said there were no bank audits in Germany ?

Dr. Jeidels : No.

Mr. Manu Subedar : How does the Reichsbank then keep itself fully informed about the affairs of any particular bank ?

Dr. Jeidels : The majority are joint stock banks. The Reichsbank sees their balance sheets.

Mr. Manu Subedar : But the balance sheets are not audited, they are prepared by the banks themselves.

Dr. Jeidels : Yes, they are supposed to be correct just the same.

Mr. Manu Subedar : You have not the phenomena of what is called window dressing in your country ?

Dr. Jeidels : I only know the windows of my own bank and they are not dressed.

Mr. Manu Subedar : Is there a comment in the financial press that some of the banks try to show a better liquid position, and more cash on that date of the balance sheet, than they actually usually have for months together.

Dr. Jeidels : That has other reasons.

Mr. Manu Subedar : Supposing for three or four months, their cash is only, let us say, 10 per cent. ; on the balance day they show it as 14 per cent.

Dr. Jeidels : The reason is not to particularly impress the newspapers. It is done, because the 31st December which is the balance sheet day, is a day when banks have to be prepared for much larger payments than usual.

Certainly one has to have a larger cash at the end of the month than during the month, and still more ready cash at the end of the year.

Mr. Manu Subedar : You have savings banks in Germany ?

Dr. Jeidels : Yes.

Mr. Manu Subedar : There is an apex bank besides the savings bank.

Dr. Jeidels : There are savings banks, clearing houses and one Central clearing house.

Mr. Manu Subedar : Is it part of the Reichsbank ?

Dr. Jeidels : It has nothing to do with the Reichs bank ; it is a private institution of the public savings banks.

Mr. Manu Subedar : It is an association of, say, the public savings banks.

Dr. Jeidels : Yes, it has its own capital.

Mr. Manu Subedar : So that the savings bank deposits in Germany are put on the deposit side, not on the loan side ?

Dr. Jeidels : It is only an apex bank, similar to the provincial banks in the co-operative movement in India.

Mr. Manu Subedar : Suppose I was a citizen of Germany and saved 10,000 marks in a particular month. I want to put that as deposit in the savings bank, what happens to the 10,000 marks ?

Dr. Jeidels : They are given to the savings bank, not to the apex bank.

Mr. Manu Subedar : How do they earn their interest ?

Dr. Jeidels : They loan it out in different ways. I can give you all particulars.

Mr. Manu Subedar : To which class do they loan it, to traders ?

Dr. Jeidels : Partly, yes ; they also hold Government securities, municipal bonds, loan against mortgage.

Mr. Manu Subedar : But apart from what is invested in Government securities, the savings in Germany go to the financing of trade and industry.

Dr. Jeidels : Yes, if you understand finance correctly.

Mr. Manu Subedar : They are lent out to trade and industry.

Dr. Jeidels : Let us not use the word 'loans'. They invest in mortgages, in industrial debentures to a certain extent, particularly in municipal bonds.

Mr. Manu Subedar : They do not constitute part of the Government's current finance, but are invested in this sort of investment which you have just mentioned.

Dr. Jeidels : Yes.

Dr. Trip : They do not disappear in the exchequer of the Government.

Dr. Hyder : The customer who makes use of this 'Giro' remittance system of the Reichsbank has got to keep a minimum balance ?

Dr. Jeidels : Yes.

Dr. Hyder : The profit which the bank derives from the use of these free balances meets a considerable part of the cost of remittance ?

Dr. Jeidels : Yes.

Dr. Hyder: Up to the year 1920 it was free of cost, but since 1921 we all know that a fee is charged. Does it cover transfers from one branch to another ?

Dr. Jeidels: I could not tell you. It is a detail, which can be furnished easily; I can neither tell you whether the bank charges commission, besides holding the balances.

Mr. Shanmukham Chetty: When you talk of the Imperial bank and industrial finance, you mean only financing the block account or you mean financing of the working capital ?

Dr. Jeidels: They are certainly not financing the block account.

Mr. Shanmukham Chetty: But commercial banks do finance the working expenses of an industrial concern ?

Dr. Jeidels: They supply, to industrial firms by way of bank loans, a certain part of their working capital, but not all of it.

Mr. Shanmukham Chetty: A certain part of the working capital of industrial concerns is financed by commercial banks ?

Dr. Jeidels: Yes, a certain part.

Mr. Shanmukham Chetty: What would be the percentage ?

Dr. Jeidels: A small percentage. I cannot tell you exactly because it depends on the various lines of business.

Mr. Shanmukham Chetty: I know we will have to examine this point more in detail when we come to industrial banks. What exactly is the part played by commercial banks in financing industry ?

Dr. Jeidels: They finance a limited part of the working capital.

Mr. Shanmukham Chetty: How is that financing generally made and on what security ?

Dr. Jeidels: It entirely depends on business and quality of the customer.

Mr. Shanmukham Chetty: There is no hard and fast rule that a commercial bank will finance the industrial firm only upon security ?

Dr. Jeidels: No, certainly not.

Mr. Shanmukham Chetty: You say that there is no general agency in this country devoting its banking activities to the business done by the London private banker ?

Dr. Jeidels: The expression "private banker" is somewhat misleading "Issuing houses" makes it much clearer.

Mr. Shanmukham Chetty: You say that with further development, with the increasing number of firms of undisputed standing, the reluctance of the banks to loan against block mortgage or without security will, by and by, diminish. You recognise that in India at present banks are more reluctant to finance against block mortgage than in other places ?

Dr. Jeidels: Yes.

Mr. Shanmukham Chetty: Is that a handicap for India, whatever might be the reason ?

Dr. Jeidels: Yes.

Mr. Shanmukham Chetty: Do you think that in India there certainly ought to be some firms which can come under the category of undisputed standing ?

Dr. Jeidels : Yes.

Mr. Shanmukham Chetty : Is it your impression that the joint stock banks in India are very reluctant to advance against block mortgage ?

Dr. Jeidels : I really cannot tell you.

Mr. Shanmukham Chetty : Is it your impression that even in the case of firms of undisputed standing joint stock banks in India are inclined to be more conservative than the institutions in other countries ?

Dr. Jeidels : I could not say so.

Mr. Shanmukham Chetty : You talk about encouraging the customers to disclose their state of financial business to banks. Is it your impression that the banks do really attempt to find from the customer himself the information rather than go to the market for bazaar rumours ? Is it the practice in your country for a joint stock bank to require its customers to furnish periodical statements of their financial position and standing in business ?

Dr. Jeidels : Yes, even without being asked.

Mr. Shanmukham Chetty : Have you found out whether the joint stock banks in India or the Imperial bank have established it as a practice that the customer should periodically furnish a return in a form ?

Dr. Jeidels : The question ought to be put to the bankers. I have tried not to be inquisitive.

Mr. Shanmukham Chetty : My impression is that the banks have not really made an attempt to secure from their customers periodical returns in prescribed forms and therefore part of the blame should lie on the banks.

Mr. Lamond : That statement is not correct.

Mr. Shanmukham Chetty : I have been a customer of the Imperial Bank for the last 12 years and I have never been asked to supply periodical returns.

Mr. Lamond : They would not ask you. They have got facilities for finding.

Sir Purshotamdas Thakurdas : It is more for the Committee to go into this and I suggest that we leave it at that.

Mr. Shanmukham Chetty : Do you think that in India there is that personal contact between the client and the banker as there is in your country ?

Dr. Jeidels : That is rather difficult to say. My impression does not lead me to a general criticism.

Mr. Shanmukham Chetty : As a practical banker, don't you attempt to keep in touch with your clients ?

Dr. Jeidels : Yes, within possible limits.

Mr. Shanmukham Chetty : You are not in a position to say whether that touch exists in India ?

Dr. Jeidels : I have not the impression that that touch is lacking. One would have to ask the customer ; I cannot ask the banker whether his customers are satisfied.

Mr. Khaitan : Regarding the touch, our impression is different from what you have gathered. May I know from what places you gathered your information ?

Dr. Jeidels : My information was mostly gathered in the towns I visited—Madras, Calcutta, Lahore, Cawnpore, Lucknow. If you ask whether I have seen hundreds of people, then I say I have not ; but I believe to have seen enough to form an impression.

Mr. Khaitan : What is the practice of banks about re-discounting bills ?

Dr. Jeidels : The word "re-discount" is generally used for re-discounting with the Central Banking Institution. Banks buy bills all over the country from their customers ; it is one of their principal lines of business. Sometimes they sell bills in the market. It is a matter of calculation and profit.

Mr. Khaitan : Do the banks in Germany consider it beneath their dignity to sell the bills in the market ?

Dr. Jeidels : Generally, they do not sell bills. Our free bill market is not highly developed. But it is not a matter of dignity ; it is a business consideration. German banks do sell bills which they have discounted from their clients. They sell them at a profit owing to their endorsement.

Mr. Khaitan : They sell the bills to the public in the market ?

Dr. Jeidels : They do sometimes, for instance, to foreign banks.

Mr. Khaitan : Supposing there were wealthy German citizens and they were prepared to buy bills ?

Dr. Jeidels : I do not know to what extent it happens.

Mr. Khaitan : What happens in England ? Supposing a bank has got a number of bills which they want to convert into cash, would there be any objection on the ground of prestige or otherwise ?

Mr. Cassels : Not the slightest. You do it every day. It is the business of the discount market to buy and sell bills.

Mr. Khaitan : That is, the banks freely go into the market to buy bills and to sell ?

Mr. Cassels : Yes.

Dr. Jeidels : In countries where there is a bill market.

Mr. Khaitan : Supposing there is no bill market, supposing there are people who are willing to buy, banks go to them freely ?

Mr. Cassels : Yes.

Mr. Khaitan : Similarly, as regards bank acceptances. From the very nature of things I suppose it means that the banks can sign their acceptances to customer's bills and that the customer may sell it in the market with the acceptance of the bank on it ?

Dr. Jeidels : Yes.

Mr. Khaitan : Have you made any inquiry in India whether the banks in this country have shown the slightest intention of pursuing that class of business ?

Dr. Jeidels : I cannot tell you.

Mr. Khaitan : I hope you have not got the impression that there are not people in India, especially in places like Calcutta and Bombay, who would be quite glad to buy bills and buy bank acceptances at good rates of interest ?

Dr. Jeidels : You must make a difference between banker's acceptances and banker's endorsement.

Mr. Khaitan : The bill market simply consists of individuals who are prepared to buy and sell bills. If you always find them ready to deal in bills, that constitutes a bill market. Have you formed the impression that at least in Calcutta and Bombay there used to be a good bill market ?

Dr. Jeidels : I do not think so.

Mr. Khaitan : Would you be surprised if I told you that in Calcutta and Bombay there are a large number of firms which deal in bills as a regular feature of their business ? There do exist quite a number of respectable firms at least in Calcutta and Bombay, as also at some other big places, who are prepared to buy bills from time to time, according, of course, to their financial requirements.

Dr. Jeidels : I would like to know whether firms make it their business to buy bills and sell them to such institutions, like insurance companies and banks, which cultivate that kind of investment.

Mr. Lamond : They do.

Sir Purshotamdas Thakurdas : They are box bills. They are the best bills. They are kept in the box.

Mr. Lamond : In the Imperial bank there are 5 to 6 lakhs of box bills The *multani* takes the desposit from the client and instead of giving him a deposit receipt, he gives him so many bills with his endorsement on them.

Dr. Jeidels : That is an interesting institution.

Mr. Cassels : It is a matter of negotiation. We have been speaking of a free market, whether the rate is the same for all bills.

Dr. Jeidels : It is not a bill market.

Mr. Lamond : They take those bazaar bills. The rate may not be the same. It all depends on their standing.

Dr. Jeidels : I think it is an important element of a bill market. Such business of buying bills from trade and selling them to proper parties has been a speciality of some banking firms in New York, previous to the establishment of the Federal Reserve Bank system.

Mr. Khaitan : Bill brokers in India are understood differently. In London, a bill broker means a firm or individual who buys and sells bills with his own money or borrowed money. But here in India, bill brokers are really brokers or go-betweens between the buyers and sellers of bills. There are two kinds of bills, genuine trade bills and finance bills. The latter are those that are drawn say, by a firm in Calcutta either upon itself or upon another who stands in the position of a guarantor. But there are bills coming from the interior of the country payable at 3 months' sight and so on. If wheat is moved from Cawnpore to Calcutta, the seller draws a bill upon his commission agent in Calcutta payable at 3 months' sight. The commission agent accepts that bill and gets the railway receipt from the post office. He takes delivery of the goods and the goods are immediately sold that way. When the bill becomes due he pays it. Would you not call it a genuine trade bill ?

Dr. Trip : It is, I think.

Mr. Khaitan : There are bills already worth crores of rupees. What is wanting is the touch between the joint stock banks and the bill market, which does not take place and no endeavour is made by the banks to get into touch with the bill market. In 1929 and 1930 it so happened that when the bank rate was 5 or 6 per cent. the rate for good bills in the bill market was only 3 or 3½ per cent.

Mr. Lamond: We have opened a branch in Burra Bazaar specially with a view to get into touch with the bill market.

Mr. Khaitan: I am not talking about the Imperial Bank alone which might have perfected itself. I am talking generally of all banks. What is wanted is that the banks should get into touch with the bill market. Would you, as experts, advocate that banks should get into touch with the bill market so that the opportunities of buying and selling bills irrespective of whether or not a Reserve Bank comes into being in this country ?

Mr. Cassels: The normal way of conducting the bill business is for the customer to go to the bank and ask the latter to discount the bills in the possession of the former.

Mr. Khaitan: You have been told that there are about 2,400 towns in India and about 700,000 villages and the number of banks that are doing business in this country including co-operative banks is only about 750, so that either the head office of a bank or the branch of a bank does not even come up to 25 per cent. of the towns; and therefore it is not the banks that often receive these railway receipts and *hundis* as we call it. What happens is that the *hundi* is discounted with some *shroff* at the place from which the goods are sent and the railway receipt is sent direct to the commission agent. Otherwise what happens is that the *shroff* who pays the money to the seller of goods at, say Cawnpore, might like to discount that bill with some other party and it might take a long time for the *hundi* to reach its destination, say Calcutta, for acceptance purposes and delay might cause demurrage and other charges. And by the time it reaches Calcutta, it may contain over 7 or 8 signatures. Are not such bills good for the banks to buy ?

Sir Purshotamdas Thakurdas: Provided the parties to the transaction are quite sound.

Mr. Khaitan: That is always presumed, certainly. Would you gentlemen, sitting as experts, recommend the creation of an institution whereby the banks would get into touch with the bill market ?

Mr. Cassels: I think there ought to be a proper money market.

Mr. Khaitan: Going a step further, would you recommend to the banks here to give up their shyness and to deal with the system of bank acceptances ?

Dr. Jeidels: That can scarcely be done before the establishment of a Reserve Bank.

Mr. Khaitan: I can quite understand your point when the bank buys bills and then rediscounts them with the central banking institution of the country but I am not able to understand how the question of a Reserve Bank arises in the case of bank acceptances ?

Dr. Jeidels: The case is the same.

Mr. Khaitan: Why should a bank bother about the question as to whether that person who is buying the bill has another channel available to him, through which he could approach the central banking institution of the country ?

Dr. Trip: It would be a channel for the bank to fall back upon.

Mr. Khaitan: As a matter of fact the *shroff* rate of discount in the market for good bills is never above the bank rate ?

Mr. Cassels: But will that market be available even during times of crisis ? If there were a Reserve Bank in existence, then you have always something to fall back upon.

Mr. Khaitan : We, in India, have not experienced a worse crisis than we had last year—and Sir Purshotamdas will bear me out in my statement when I say so—and even then enough money was available for the purpose of discounting bills.

Dr. Jeidels : German banks give their acceptance to a large extent ; but they would certainly be reluctant to do so, if there was not some agency always rediscounting bills offered.

Mr. Khaitan : Would you not recommend that this is a matter which this Committee should enquire into ?

Dr. Jeidels : My information on the bill habit and on assets is not complete ; I, therefore, only mentioned the matter as one which you should follow up further.

Mr. Khaitan : I would not trouble you further on that point, in view of the promise by Dr. Trip to supply us with a memorandum on this subject.

Mr. Khaitan : Would you recommend the starting of any other institution to finance the industries of the country apart from commercial banks ?

Dr. Jeidels : I could anticipate the answer, but I would prefer not to do it, as I shall express my opinion carefully in the memorandum on Industrial Banking.

Chairman : Referring to the figures of deposits, I am not sure in my own mind whether these figures are conclusive. I believe the figures include Government deposits.

Dr. Jeidels : Only private deposits.

Mr. Lamond : They include bankers' balances, not Government balances.

Chairman : Therefore they are not wholly private deposits.

Dr. Jeidels : Where banking is highly developed, bankers' balances are usually large.

Chairman : Perhaps some practical bankers might pursue it.

Mr. Manu Subedar : May I know, before proceeding further, whether the other gentlemen are in entire agreement with the portion of the memorandum which you have just read and have nothing to drop or add.

Chairman : I understood they were in agreement with these views—they are in provisional agreement—though it is quite possible that as a result of the discussions, they may modify the views. That, I understand, is the precise position.

Mr. Sarker : I take it that as at the present moment these are also their views.

Mr. Cassels : Yes.

Mr. Khaitan : From the figures of deposits you have to draw the conclusion that the country does not abound in untapped banking facilities. Have you considered the question of the amount of deposits in connection with the index figures ? May I draw your attention to some of the index figures. I have the Indian Trade Journal, October issue. Let us take the total figures, because the Imperial Bank figures have moved in the same line with the total deposits.

In the year 1919 the index figure was 196.

In the year 1920 the index figure was 201.

In the year 1921 the index figure was 178.

In the year 1922 the index figure was 176.

In the year 1923 the index figure was 172.
In the year 1924 the index figure was 173.
In the year 1925 the index figure was 159.
In the year 1926 the index figure was 148.
In the year 1927 the index figure was 148.
In the year 1928 the index figure was 145.
In the year 1929 the index figure was 141.

The highest index figure was in 1920 *i.e.* 201, and the deposit figures were highest in 1920 *i.e.* 226 crores. Since then the index figure went down to 141 from 201.

Dr. Jeidels: It practically means that owing to the higher purchasing power of money the deposits show an increase, in the 10 year period, of 25 per cent.

Mr. Khaitan: That is only from the point of view of the index figures Then we come to the figures of public debt; that also draws money from the public.

Dr. Jeidels: Yes.

Mr. Khaitan: I am reading from the Budget for 1930-31. The figure of public debt in India, rupee debt, rose from 476 crores in 1923 to 566 crores on the 31st March 1928 and to 644 crores on the 31st March 1930. In 1921 the figure of debt was 339 crores. I am reading from the Statistical Abstract for British India. From the 31st March 1921 the public debt rose from 310 to 566 crores on 31st March 1928 and to 602 crores on the 31st March 1929. When we deal with the year 1928, it is better to take the figure of 31st March 1929. It means 602 crores. Between 1921 and the 31st March 1929, roughly speaking, about 300 crores went into the public debt from the market. I am only referring to the rupee debt, not to the sterling debt. Now, in addition to this—I may draw your attention—there are also the figures of contraction of currency.

Dr. Jeidels: What Mr. Khaitan says is quite clear. If the deposits show the same amount to-day as 10 years ago, it means they have increased practically by 25 per cent.

Chairman: The second point is that so much money has been withdrawn from the market by Government borrowing and also by Government's contraction of the currency. He has not yet been able to give the precise figure for contraction, but that is not of any account.

Dr. Jeidels: It does not modify the statement.

Mr. Khaitan: In 1919-20 and 1920-21 the total contraction was about 68 crores; in 1929-30 the figure for contraction of currency was about 32½ crores and in 1930-31 it has been 29 crores, so that in these two years again the contraction of currency has been to the extent of 61½ crores of rupees. Now, in spite of these contractions of currency which must have an effect on the amount of currency in circulation, and the fact that the index figures are reduced in the way that I have already given to you, you find that the figures of deposits have not only remained intact but during recent years, in spite of these factors, there is a tendency towards increase. For example, in 1923 the deposits totalled 190 crores; in 1924 they went up to 202 crores; in 1925 to 206 crores; in 1926 to 208 crores; in 1927 they went down to 205 crores, but again in 1928 they rose to 208 crores. This shows, really speaking, that there has been an increase in deposits. Furthermore, we have got to remember

that in terms of gold there has been another increase by about 12½ per cent. by reason of the rupee value having been increased from 1*s.* 4*d.* to 1*s.* 6*d.* On the top of all this the Government has been able to tap the resources of the market to the extent of about another 300 crores of rupees. Would not these figures change your view a little as regards the country abounding with possibilities of banking resources ?

Dr. Jeidels : Yes, it does to a certain extent. The deposits are not as low as they appear at first sight. There is really an increase, while no increase is apparent in the face value of the figures. How far this changes the answer to the question whether much more banks would really find employment remains to be seen, but I think my statement has to be revised according to the index figures quoted by Mr. Khaitan. There is an increase in deposits while the figures do not show one.

Dr. Trip : There seems to have been about 1920, I think, a kind of inflation in this country as there was in most countries. There was too large an amount of currency all spread over the country I suppose. Was that not the case ?

Mr. Khaitan : There was no inflation in India. What happened really is that, when there was so much currency in circulation in the year 1920, the Government suddenly decided to increase the exchange value of the rupee from 1*s.* 4*d.* gold to 2*s.* gold and in order to achieve that result Reserve Councils were sold and currency was contracted to the figure that I have already given you. The result was that there was a contraction of currency and at no time was there an inflation of currency. After that, when the Government could not maintain exchange at 2*s.* gold, the exchange fell with a crash to very nearly 1*s.* gold. Then the Government again decided to increase the exchange value of the rupee to 1*s.* 6*d.* gold and as a result of that, there has again been a contraction of currency. At no time during this period, either during the War or after the War, was there an inflation of currency in the sense that there was in Germany or France or Belgium or in any other country. Whatever increase there was in the circulation of currency was due to natural and normal factors, but never was there a sense of inflation. The amount of currency did increase but that was because of the profits that Indians received on account of increase in prices and the tender of gold to the Government currency chest.

Dr. Trip : Your index number, is that the index number of the wholesale prices ?

Mr. Khaitan : Yes.

Dr. Trip : So you are of the opinion that the rise of that index number to 201 in 1920 was due not to inflation but to the rise in the market prices of the products of India ?

Mr. Khaitan : Exactly.

Dr. Jeidels : Mr. Chairman, I have marked in my copy of the memorandum that the increased purchasing power by about 25 per cent., modifies somewhat the figures contained in the memo. I am much obliged to Mr. Khaitan for the correction.

Chairman : As regards the other two parts of Mr. Khaitan's statement that is the deflation and the Government borrowing, would not that seem to indicate that there was a rise in the depositable savings—if I may use that word—in the country ?

Dr. Jeidels : One cannot fully compare bank deposits and investment securities. The investor who deposits with a bank is of a different kind from the investor who buys Government securities. I mention this to support

my opinion that, after all, the banking possibilities of the country are not so tremendously large.

Chairman: I am not sure myself, without looking at the reports, about all the figures given by Mr. Khaitan. For example, if I remember right, there was an issue of currency against what we in this country call *ad hoc* securities which would be one form of inflation. I do not want to go into that very complicated problem at this stage, but what I do want to say is this. I would not like at this stage to subscribe to all that Mr. Khaitan has said. It is an undoubted fact that Government during this period did take in the market 300 crores of savings or whatever the precise figure may be.. Then it is possible that there has been a certain amount of deflation. What the precise amount has been or that there has actually been deflation as compared with 1919 is another matter. I should like to know would the effect of deflation be the withdrawal of savings by Government.

Dr. Trip: No, I do not think so. The currency decreases but on the other hand purchasing power increases.

Mr. Khaitan: You mean purchasing power of the rupee or the purchasing power of the *raiyat* ?

Dr. Trip: The purchasing power of the rupee.

Mr. Khaitan: Does not it depend upon whether the exchange value of the rupee is increased ?

Dr. Trip: If you look at the index numbers of the United States you will find that the international purchasing power of the dollar has not increased with regard to the other currencies.

Chairman: You know in other countries what the effect of deflation has been. Has it had the effect of withdrawal of savings ? That is what Mr. Khaitan's point is.

Dr. Jeidels: I think Mr. Khaitan's remarks are largely correct; he says, "You give us figures which you believe to be comparable, but they are not comparable". They are indeed not comparable, because the index number has changed; if a man had one rupee ten years ago his rupee means now one and one-third rupee in purchasing value. Besides the rupee is worth 1*s.* 6*d.* instead of 1*s.* 4*d.* The bank deposits have really increased while the figures which I have given seem to show that they have not increased; so I accept this correction of Mr. Khaitan.

Mr. Khaitan: Another question which I would ask you is, what is the proportion of bank deposits to the amount of currency in circulation in England or any other country generally ?

Dr. Jeidels: The bank deposits are in Germany about four times as high as the amount of currency in circulation.

Dr. Trip: It is about the same in Holland.

Mr. Khaitan: That is my information also. Does not it strike you as a little bit queer that the amount of deposits in banks in India are almost equal to the amount of currency in circulation ?

Dr. Jeidels: It is not surprising.

Mr. Khaitan: I did not say surprising. "Queer" is the word that I used. Does not that also indicate to you that there is a vast possibility of an increase of banking in the country ?

Dr. Jeidels: Not necessarily. In the long run, of course, there may be vast possibilities, but we speak of the actual ones. Is the part of the country's

resources, which by its nature is apt to go into banks, so large that it cannot be properly handled by the existing banking institutions ? This is how one ought to put the question. Are there too few banks to take care of those resources in the country, which normally go into a bank ?

Mr. Khaitan : After all, India is not an uncivilised country; it is not a country in which trade is not carried on ; it is not a country in which industry is not carried on. India is in fact the sixth biggest industrial country in the world. It has got a good export and import trade and the internal trade, as you have heard from the Vice-Chairman, is at least 7 to 24 times as great as the foreign trade. India, therefore, cannot be said to be a kind of primitive country in which people do not understand banking requirements and the banking position. I do not mean any offence to anybody, but India was perhaps the first country that developed banking before any other country did. When I find that in other countries the banking deposits are about five times as great as the amount of currency in circulation, and that the banking deposits in India are only about equal to the amount of the currency in circulation, does not that give you some idea that there is a great possibility of banking development in this country ?

Dr. Jeidels : Yes, undoubtedly. I have not dealt with the question, whether there are banking possibilities. If you wish to ask me this, I say: there are very large banking possibilities.

Dr. Trip : I think 72 per cent. of the population are agriculturists. Do you think that they offer the great many banking possibilities which are meant here by my friend, Dr. Jeidels ?

Dr. Jeidels : I have only answered as to whether there are large banking possibilities for the future in the country, but, for the present, I stick to my statement.

Mr. Khaitan : We are only discussing the future Dr. Jeidels, and the *raison d'etre* of this Committee is to take into account the future possibilities; to study whether the banking system is deficient at present ; and to lay down the lines on which it ought to be improved so that there may be better banking possibilities. In order to consider these questions we have got to look into the future whatever may have happened in the past.

Dr. Jeidels : You do not know whether there will not in future be sufficient banks. You may even duplicate the present figures, but even then the banks existing at present could easily take care of the deposits in the country.

Mr. Khaitan : I do not understand how you come to that conclusion. Pardon me for not being able to agree with you. Does not that argument cut both ways. You say that the banks take care of the deposits that they receive at present. My contention is that there are not enough banks to receive more deposits and to give more banking facilities to the country. If there were more banks, if there were better banks, if there were banks that took a more national outlook, then there would be more deposits. There are possibilities in the country of getting more banks, and the country as a whole, including agriculturists, industrialists and merchants, would be catered for much better in their financial matters.

Dr. Jeidels : I have considered the question whether the present banking facilities in India are more or less sufficient for the moment. It is indeed the first question to be put while investigating a banking system. I tried to show that, on the whole, banking facilities correspond to the present general development of the country.

Mr. Khaitan: As regards the proportion of deposits to capital, it is very difficult in India to know that because, for the exchange banks, we cannot lay down any proportion between the deposits which they receive in India and the capital they have here, which is zero.

Dr. Jeidels: I do not understand.

Mr. Khaitan: So far as the exchange banks, which are not Indian banks are concerned they have got their head offices outside India and are sterling companies. You state that there must be a proportion between the paid-up capital and reserves on the one hand and the amount of deposits they receive on the other hand. It may be 1 to 10 or 1 to 14 or 1 to 15; whatever it may be.

Dr. Jeidels: I am sorry I made that remark. It leads the discussion astray. I asked: are the banking instruments in this country overstocked with deposits? No doubt, a bank has to adjust its capital to a proper ratio of deposits and capital. But it has really nothing to do with our problem. I ask; are the 200 crores of bank deposits at present so large as to require a more extended banking system, a greater number of banks and more branches of banks? My impression is that the banking instrument of the country is about large enough.

Mr. Khaitan: I still cannot see your conclusion being based upon the facts that you admit. I was showing to you from the figures that there is a great possibility and I am showing you from the analogy of other countries that the banking system in India ought to have been more developed than it is at present. That is the reason why this banking committee has been appointed.

Dr. Jeidels: Let us assume, that there were 200 banks more in the country; do you think there would be many more deposits in the banks, in the aggregate?

Chairman: There may have been. You probably know that there are many places in India which do not possess a single bank. Is it your considered view that even if a bank were opened there, no deposits would flow into that bank?

Dr. Jeidels: I do not know, if there would be a great influx.

Chairman: It would be a question otherwise of these deposits being sent to a bank at some other place. I think there are even many district towns in India where there is not a single bank. Therefore, people at those places may not have an opportunity of depositing their money.

Dr. Jeidels: They have the Post Office Savings Banks.

Chairman: They have, but those are not commercial banks.

Dr. Jeidels: Excuse me, from the point of view of deposits it does not make a difference.

Chairman: Doesn't it? The Post Office Savings Bank attracts a certain class of deposits, but it does not attract deposits of all kinds. I am prepared to admit that there are certain avenues of investment open to them, but even then there are difficulties. You must have realised that the machinery for making investments is rather deficient in this country. I simply make the suggestion that people in those places owing to the lack of a bank which will take deposits may not deposit their money in a bank to the same extent as they would have done—I use these words deliberately—if there was a commercial bank or its branch or agency there at the present moment. I throw out the suggestion leaving it to you to discuss it, and perhaps my friends, the practical

bankers, particularly Lala Harkishen Lal, would be able to bring out something on the point.

Dr. Jeidels: It is the general belief that a country ought to be covered by a vast number of banks and their branches, and that it would do much good to the country. A bank has a natural tendency to go wherever it thinks it can find deposits. I think deposits in a district generally attract banks.

Chairman: Is it only the question of deposits being there? Is it not the real point that if only a bank branch can manage to run itself from the income it makes out of its deposits there arises the question of opening a branch bank where a branch does not already exist?

Dr. Jeidels: A bank can do business only to the extent of its deposits minus a certain amount of liquid asset which it has to keep. Let us assume the case of a prospective depositor who lives in a place where there is no bank. What do you think he will do? Having only a limited knowledge of the country, I put the question to you as to myself. He may put his money in a postal savings bank or buy postal certificates. If there is an indigenous banker in the town, he may deposit his money with the indigenous banker, and we can consider him as being taken care of. The figure of 700 bank establishments given to us refers only to joint stock banks and branches.

Mr. Khaitan: Including co-operative banks.

Dr. Jeidels: Yes, but not co-operative societies. The problem in our present case comes down to whether in the small town mentioned enough money is available for banking purposes to warrant the establishment of a bank or a branch.

Mr. Khaitan: I will answer your question. You mentioned Postal Savings Banks. In India they do not receive from an individual more than Rs. 2,000, and it is a very small sum. They are not intended for merchants. They are intended not even for middle class people, but for the lower class of people. So far as postal cash certificates are concerned its limit extends to Rs. 10,000 only. No person or firm can invest in postal cash certificates more than Rs. 10,000, the idea being that they are not intended for merchants, but are for middle class people who do not invest their money in trade. Then they cannot draw cheques against postal cash certificates. Now what happens is this. The person who has got money buys gold or invests it in jewellery, if he cannot properly invest it because of want of banking facilities. Or if he is a poor man he invests it in silver ornaments. Or if he cannot deposit it with an indigenous banker he keeps the money in cash which reduces the velocity of circulation of the currency of the country. Now, you know that if transactions are done wholly through the medium of currency then the amount of credit that may be established is very much reduced, whereas if it is done through banks, the amount of credit established upon the volume of currency in circulation may be ten or twenty times that currency according to countries. Now, therefore, the same volume of currency in the absence of a proper banking system reduces the amount of credit available in the country, at large.

Dr. Jeidels: May I put a question to the practical bankers? What is the Imperial Bank's experience in establishing new branches? Did large amounts of deposits come forward?

Mr. Lamond: Our small deposits have increased. They have replaced large deposits which may have gone into treasury bills.

Mr. Khaitan: Have not Government been putting on the Treasury Bills at least 1 per cent. more than what banks pay on their deposits for the same period ?

Mr. Lamond: Three months treasury bills yield 6·6 per cent. No bank is paying more than 5 per cent.

Chairman: There has been a growing increase in the small deposits.

Mr. Buckley: Three months' deposits give 5½ per cent. Treasury bills yield 6·6 per cent.

Mr. Lamond: In spite of this it is the experience of the Imperial Bank that there has been a large increase in the small deposits.

Mr. Buckley: A large amount of large deposits have been going into treasury bills to counteract the increase in small deposits.

Mr. Shanmukham Chetty: We want to know whether as a result of the opening of branches of the Imperial Bank they attracted large deposits.

Mr. Lamond: That is so.

Mr. Sarker: I want to consider it from another point of view. The Imperial Bank have in these few years established a number of branches, and we have got evidence that most of them have been able to attract deposits more than the ordinary banks. Almost in every case they have been able to meet their expense. That means they have got deposits at least to meet their expenses.

Dr. Jeidels: It follows, what I have said in the memorandum, that the policy of the Imperial Bank to open new branches should be encouraged. Of course, quite generally the extension of banking ought to be encouraged, because it will tap whatever there is available.

Mr. Shanmukham Chetty: From the trend of the paragraph from which my friend has read a sentence, I take it that you have come to that opinion from the fact that there are no more deposits to be attracted by the branches. What is the criterion that you have adopted in arriving at the conclusion that we have now reached the limit of attracting deposits ?

Dr. Jeidels: One cannot say in regard to any country, that its possibilities are exhausted. I only wished to warn against those complaints, which you have heard, that with more banks the country would be in a better condition. I felt it my duty to state that such information and complaints are not of much value. If the Imperial Bank believes that in a certain place some business might be forthcoming, I do not see what should prevent the bank to establish a branch. I think, in the Punjab alone the bank has about 18 sub-stations.

Lala Harkishen Lal: They have 34 in the Punjab.

Dr. Jeidels: The more, the better. The bank tries to tap the money in order to use it in its business. I have not the slightest doubt that banking facilities will increase in India, that there will be more bank branches particularly, but I do not see what special action could be taken about it. You cannot force anybody to open a business; nor to open a new joint stock bank. With the Imperial Bank the Government may, owing to the special position, be able to insist on the opening of some branches; but even here I do not see that much could or should be done; and I cannot agree that there is at present any particular reason for complaint. I think there exist, more or less, the necessary banking facilities, as far as tapping of deposits in the country is concerned. Of course others may hold a different opinion.

Mr. Shanmukham Chetty : My question was a limited one. I agree that banking facility does not mean facility to lend money as much as facility to mobilise the savings of the people.

Dr. A. Friederich : May I suggest in this connection that increase of savings is not only a matter of increasing banking facilities, but it is also a matter of education. People must have confidence in their banks, and to this confidence they must be educated, not in the last instance also by good bank management deserving confidence.

Chairman : We realise all that. But my colleagues find it difficult to reconcile the statement made by Dr. Jeidels ' that the country is not abounding with untapped banking possibilities ' with the deposits attracted by the Imperial Bank. It is precisely that at which, I take it, all these questions are directed. I am pretty sure my colleagues fully realise the aspects to which you have referred, and because that statement has raised certain doubts in our minds we are trying by discussion to clear up our doubts. I can give figures which show a growth in the number of banks and branch banks and an increase in deposits. Do these data justify the conclusion you have recorded here ?

Mr. Shanmukham Chetty : I agree with Dr. Jeidels that by banking facility we should emphasize more the possibilities of mobilising the savings of the people by means of deposits. You are of opinion that the country does not abound with immense banking possibilities beyond what exist at the present moment. What I am after is this. My friend Mr. Khaitan applied one test, that is the ratio between the currency in circulation and the amount of deposits. In other countries this ratio is as 1 : 4, and here it is almost equal. And from that my friend Mr. Khaitan draws the inference that there are still immense possibilities of attracting deposits, by providing banking facilities. If you are of a contrary opinion do I take it it is simply an *obiter dictum* or have you arrived at your conclusion by a study of the index figures or by any other scientific method, and if so what are they ?

Dr. Jeidels : The wealth of a country consists to a part in such amounts which are available for investment. I have tried a survey of the investment market. Large amounts are in this country used in money-lending. A certain amount is hoarded ; by hoarding I do not mean personal ornaments of the lower classes, but what can be made available for banking. There exist many kinds of savings institutions, postal savings banks, co-operative banks etc. ; all try to tap the country's liquid resources, with the result that there is not so much left of which a newly established bank could take care. A man who lends his money as professional or occasional money-lender, will not put it into the bank. One who wishes to buy postal cash certificates, has every opportunity to do so. No doubt, with new bank branches opened, some deposits will be forthcoming, but I do not believe in large amounts ; but in any case, where they can be reasonably expected, banks or bank branches will appear in due time. My opinion is that available resources are more or less taken care of.

Mr. Shanmukham Chetty : I only want to know what are the data you applied in arriving at your opinion.

Dr. Jeidels : I told you.

Mr. Manu Subedar : You are extremely pessimistic about the possibility of banking development in this country.

Dr. Jeidels: This is an unwarranted conclusion. I do not doubt there will be further development.

Mr. Manu Subedar: Will the development be at least as much as it has been in the last ten years?

Dr. Jeidels: It depends very much on the economic conditions of the country. Money available for bank deposits will first have to be earned and then saved.

Mr. Manu Subedar: With regard to deposits which in your opinion limit banking facilities, are you aware that there are industrial and other concerns which are receiving money directly from the investors?

Dr. Jeidels: I have tried to make an estimate. I estimate it at about 30 crores.

Mr. Manu Subedar: All that is money, which is ultimately bound to be attracted to banks.

Dr. Jeidels: I do not think so. I think it is drawn away more from other kinds of investment than from banks' accounts.

Mr. Manu Subedar: Have you seen the banking map of India? If you look at the banking map of India you will see there are extensive tracts which have no bank at all, and you say the indigenous banker does not go into your calculation.

Dr. Jeidels: Oh yes, he does.

Mr. Manu Subedar: What amount of capital should the indigenous bank have in order to call it a banking institution?

Dr. Jeidels: I think we arrived at the figure that there are about 5,000 indigenous bankers who can be compared to other banking institutions. If you speak of banking facilitites you ought to take those indigenous bankers who are not taking excessive interest into account.

Mr. Manu Subedar: If you look at the banking map of India you will see that about one-fifth of the population is in Indian States and that in Indian States there has been less banking than in India? Taking India as a whole, you do not think there is still hope for Government, municipal and other finances as well as private finance?

Dr. Jeidels: My principal hope is the money hoarded.

Mr. Manu Subedar: What do you call hoarded money? A man does not want the money for a month or two and lets it lie in the current account. You call current account also deposits?

Dr. Jeidels: Yes.

Mr. Manu Subedar: You know the Western principle of loans creating deposits?

Dr. Jeidels: I have heard of it.

Mr. Manu Subedar: You do not think that can apply to India?

Dr. Jeidels: No. I even do not believe in its importance in other countries. It is a controversy among political economists.

Mr. Manu Subedar: You know the rates at which the Imperial Bank borrows? They give 3½ per cent. for 12 months on deposits and nothing on current account. Would you regard the growth of deposits in the Imperial Bank as the sole criterion of there being no deposits?

Dr. Jeidels: There are other banks.

Mr. Manu Subedar : More deposits could be attracted by higher rates ?

Dr. Jeidels : I think so.

Mr. Manu Subedar : If the Imperial Bank gives higher rate of interest, it will probably get more ?

Dr. Jeidels : I think so.

Mr. Manu Subedar : You have put down the Imperial Bank as the test of the deposit possibilities in tapping banking resources ?

Dr. Jeidels : Not entirely ; I gave a figure for all banks in India.

Mr. Manu Subedar : You are aware that the Imperial Bank have reduced their deposit rates during the last 10 years ? Would you still hold on to your opinion that there is no room for expansion ?

Dr. Jeidels : There is room, but not very much. I am only speaking of expansion in banking.

Mr. Lamond : In Scotland the banks are paying 1½ per cent. on deposits and nothing on current account.

Mr. Manu Subedar : You say " There is a danger in too many banks or branches competing in a locality as it leads the weaker banks to offer higher rates for deposits and accordingly to give loans at higher rates and increased risk ". You have examined the position of the exchange banks in India ?

Dr. Jeidels : Not as fully as you have.

Mr. Manu Subedar : Whatever is possible within four weeks ?

Dr. Jeidels : Yes.

Mr. Manu Subedar : It would be correct according to you to say that the weaker banks are the joint stock banks ?

Dr. Jeidels : Some banks are weaker than others.

Mr. Manu Subedar : The Imperial Bank is not an Indian joint stock bank being governed by a special law. Therefore, excluding the Imperial Bank, the weaker banks are the indian joint stock banks ?

Dr. Jeidels : Some of the Indian joint stock banks are weaker than others ; some are stronger.

Mr. Manu Subedar : Taking the Indian joint stock banks as a whole you consider them weaker than the exchange banks ?

Dr. Jeidels : Weakness and strength I measure by the amount of capital at their service.

Mr. Manu Subedar : But the rate which they give for their deposits is also a sign of weakness.

Dr. Jeidels : Sometimes.

Mr. Manu Subedar : You draw attention to the danger in branches being established at centres where there are banks already existing ?

Dr. Jeidels : I draw attention to the dangers for a certain class of banks.

Mr. Manu Subedar : If a strong bank with greater capital and reserve went to a place and established a branch, it would make the position of the existing banks rather weak ?

Dr. Jeidels : No doubt.

Mr Manu Subedar : I put it to you whether the danger is not of Indian joint stock banks being squeezed out by this competition ?

Dr Jeidels: I have no doubt that such is possible in all countries.

Mr Manu Subedar: In a further paragraph you say that the position of the Indian joint stock banks seems to be less secure ?

Dr Jeidels: I have tried to be very careful in choosing my words.

Mr Manu Subedar: Would you not suggest that something should be done to prevent them from going to the wall by the competition of foreign banks ?

Dr Jeidels: Not at all. I favour competition, whether from Indian or foreign banks; bank is bank for me.

Mr. Manu Subedar: If a foreign bank is ruined the shareholders of the bank are foreigners. If an Indian bank is ruined, the shareholders are Indians. Would you not suggest to us as an Indian Committee any measures which would secure for the Indian shareholders the right and privilege of giving banking facilities in this country ?

Dr. Jeidels: I would suggest to you to see to it that the country enjoys the best banking. Not even 5 per cent. of the population belong to the banking community, while the remaining 95 per cent. are interested in having free competition and survival of the fittest and best banks. Competition for small joint stock banks comes principally from larger joint stock banks. One cannot say that an exchange bank competes with a small joint stock bank of Rs. 1 lakh capital. Competition is primarily in the same class; the stronger joint stock bank is the keenest competitor of the smaller.

Mr. Manu Subedar: You have not discovered any competition by an exchange bank with the joint stock bank ? You yourself said just now that they compete ?

Dr. Jeidels: All competition in the world of business is felt differently by different firms. If you ask me who is the dangerous competitor of the small joint stock banks.... .....

Mr. Manu Subedar: Who is the most dangerous competitor of the large joint stock banks ?

Dr. Jeidels: I do not think they have a dangerous competitor.

Mr. Manu Subedar: Well established foreign banks are penetrating inland now ?

Dr. Jeidels: I do not think that such competition is dangerous. It is sound, healthy competition.

Mr. Manu Subedar: You say they do not compete at all, or you say they compete but not dangerously ?

Dr. Jeidels: They compete, but not dangerously.

Mr. Manu Subedar: How do you judge it ?

Dr. Jeidels: I am taking the point of view of the customer.

Mr. Manu Subedar: Take it from the point of view of the joint stock banker.

Dr. Jeidels: From the point of view of the joint stock banker, I would like to be the only banker in the country.

Mr. Manu Subedar: What would be the system by which you would judge whether a large joint stock bank in this country was menaced by strong competition or not ?

Dr. Jeidels : I think a bank ought to have, in order to operate successfully, a minimum size. A bank of too small a size is not in a position to compete.

Mr. Manu Subedar : We are running away from the point. By what tests would you judge whether the competition is dangerous or not ? I am speaking of the well-established joint stock banks whose size you are well aware of.

Dr. Jeidels : I would consider competition dangerous if there were too many banks. But, as the general opinion apparently is that there are too few banks in the country, I do not think there is dangerous competition between the stronger banks.

Mr. Manu Subedar : May I put the question through you, Mr. Chairman ? My point is this. Here are 5 or 6 established joint stock banks of a certain size whose balance sheet is very well known to Dr. Jeidels. They have to offer higher rate for deposits than the foreign competitors.

Chairman : That is a question of fact. I remember the evidence of the manager of one of these banks and he did not accept that statement as correct.

Mr. Manu Subedar : Let us put it, most of them.

Chairman : I would not myself accept it without reading the notes. My recollection is that one of the managers said that there was no competition in regard to the rates for the deposits. I would simply say that you have reason to believe so.

Mr. Manu Subedar : I said that the Indian banks are unable to attract deposits at the same rates as the foreign banks.

Chairman : That is your impression. I cannot vouch for that impression.

Mr. Manu Subedar : I appeal to you. Dr. Jeidels is not inclined to answer the question and you yourself feel disinclined to have a precise answer. I do not want to put the question.

Chairman : I do not want to commit myself to the accuracy of that statement at this stage. The Vice-Chairman also deos not subscribe to that statement. I have got here, also the evidence of a manager of an Indian joint stock bank where he says he cannot support this complaint.

Mr. Manu Subedar : The foreign gentleman does not feel inclined to answer a straight question in a straight manner. That is why I am putting the question through you : " whether the Indian joint stock banks are not menaced with very dangerous competition by the foreign banks established in this country ? "

Chairman : Will you please answer that question ?

Dr. Jeidels : For the strong banks of the country my answer is " No " On the question whether the exchange banks offer a higher rate of interest for deposits—" they do not ".

Mr. Manu Subedar : Are the exchange banks in a position to give loans at a cheaper rate or not ?

Dr. Jeidels : That would deprive the other banks of the respective assets; the balance sheets do not confirm such assumption. The essential point is the deposits ; they constitute the working capital, and competition for deposits influences the amount of working capital at the banks' disposal. Therefore, the question remains : " Are the exchange banks competing in a dangerous way about deposits in the country ?" Are the exchange banks offering higher rates for deposits ? I have taken care to investigate that question and I say they do not.

Mr. Manu Subedar : Are they able to give loans on cheaper rates ?

Dr. Jeidels : I do not know, but I hope they will, because the country is interested in getting cheap banking facilities.

Mr. Manu Subedar : You yourself say they do not offer higher rates for deposits. As a matter of fact they offer lower rates. If they secure money cheaply, are they not in a position to lend out cheaply ?

Dr. Jeidels : I do not think banks can be harmed much by competition which may take away some of the debtors. They may be very much harmed if competition takes away the depositors. Competition on the assets side of the balance sheet, competition for customers, is no doubt competition but scarcely dangerous competition.

Mr. Manu Subedar : It is a dangerous competition in the sense that the first class business goes to those who can offer a lower rate ?

Dr. Jeidels : This is rather generally expressed ; I can only repeat that it can never be a dangerous competition. It is a competition, but not a dangerous competition.

Mr. Manu Subedar : To what extent is that competition felt on the assets side ?

Dr. Jeidels : I am more interested in the liability side.

Mr. Manu Subedar : Is it not true that the bank which receives deposits cheaply is able to lend out cheaply and in doing so collar the best business of the locality ?

Dr. Jeidels : I will take that statement from you. It can never be a dangerous competition, and it cannot be an unwholesome competition if the rates for loans are reduced ; but if the rates for deposits are raised by competition, then I consider that a dangerous competition.

Mr. Manu Subedar : If the business of the banks dealing with the first class party is gathered away by the stronger man, the second class party is only left to the joint stock banks and that being so, is their position relatively secure ?

Dr. Jeidels : Does that mean that you imply that joint stock banks in India have only second class customers ?

Mr. Manu Subedar : I did not say nor mean it. Their business goes to the party who gives the cheapest accommodation ?

Dr. Jeidels : I do not believe it. My impression of the larger Indian joint stock banks is that they have very good customers. They have probably also some less good customers, but unfortunately this cannot be avoided. In no way I have the impression that Indian joint stock banks have a poor class of customers, I think they have a good class of customers.

Mr. Manu Subedar : You have not looked into it very closely.

Dr. Jeidels : I have not looked into the ledgers of the banks, but my impression is that the larger and the well-managed Indian joint stock banks have a very good class of customers.

Mr. Manu Subedar : Then why do they have to pay more rates for deposits ?

Dr. Jeidels : I cannot answer the question.

Mr. Devadhar : Am I to understand that your observation with regard to the need for extension of banking facilities only relate to commercial banking and not to general banking habits ?

Dr. Jeidels: We favour, of course, an extension of banking facilities to such places where there are no banks.

Mr. Devadhar: And these remarks of yours, that there is a sufficiency of banking facilities existing in the country and it would probably be risky to overbank the country, more or less concern the commercial banks ?

Dr. Jeidels: Yes.

Mr. Devadhar: Was it not ever felt necessary in your country to take advantage of some development and cultivate among the people the habit of taking advantage of banking facilities ?

Dr. Jeidels: In my country no official steps have ever been taken to open bank branches, with the exception of the Reichsbank as Central banking institution, but this is not a State bank ; it is what your Reserve Bank will be. It does not do general banking business nor does it keep other than clearing accounts. All Central bank charters contain, to my knowledge, a provision that the institution is not allowed to pay interest on deposits.

Mr. Devadhar: That is, they receive deposits without interest ?

Dr. Jeidels: Accounts ; I would not call them deposits. The increase of branches of the Reichsbank is really the only extension of banking facilities which one may call an official policy.

Mr. Devadhar: To create more centres of which advantage should be taken by people from the banking point of view ?

Dr. Jeidels: For discounting bills, issuing notes, collecting cheques and bills.

Mr. Devadhar: Even there, is not the number of 300 branches the result of some active effort ?

Dr. Jeidels: It certainly is.

Mr. Devadhar: The development of co-operative societies in this country as well as the central banks.....

Dr. Jeidels: Central co-operative banks are something quite different from Central banking institutions to which I alluded.

Mr. Devadhar: I am simply stating my own view that unless there is some kind of co-operative effort done by those who are in a position in the banking world or by Government or by those who understand these things, real facilities would not be within the reach of the people.

Dr. Jeidels: No official effort has been made to extend commercial banking beyond what I stated.

Mr. Devadhar: With regard to your plea about hoarded money, I may mention our experience in the field of co-operation. The extension of the co-operative banking system has brought to light a large amount of hoarded money.

Dr. Jeidels: This is one of the great merits of co-operation.

Mr. Devadhar: If it is true of the co-operative movement, would it not be equally true of large commercial banks ?

Dr. Jeidels: Not equally.

Mr. Devadhar: You think that if more facilities are to be created there is no need for any creative effort but that the initiative must come only from people outside.

Dr. Jeidels: Yes.

Mr. Devadhar : There is no need for teaching people how to develop ?

Dr. Jeidels : Yes, there is. Education of the public is one of the principal steps to extend banking.

Mr. Devadhar : So far as the need for further extension is concerned, would you wait till education is spread up to a certain minimum or leave the matter to the people themselves ?

Dr. Jeidels : It is rather difficult to say. I might have some practical hints for it ; there is always something one can do in a business way to increase the banking habit of the population.

Mr. Devadhar : Because we have found that even in bigger places where a co-operative bank has been opened, a good deal of money has flown into the co-operative society.

Dr. Jeidels : I believe it.

Mr. Devadhar : Money which would otherwise have not gone into it.

Dr. Jeidels : The lack of education among the majority of the population is of course the main hindrance.

Mr. Devadhar : But the existence of an institution like this in the midst of the people would be an education in itself ?

Dr. Jeidels : To establish a branch for educational purposes is a rather expensive sort of education. I would not recommend to open branches merely for educational purposes. One has to find a less expensive way.

Dr. Hyder : Can you acquire the banking habit if you know what a bank is ?

Dr. Jeidels : We have seen a good deal of co-operative propaganda work in writing and print to educate the public ; there is a great field for propaganda.

Mr. Devadhar : Just as you see the usefulness of propaganda in the co-operative field for dealing with the needs of smaller men or of middle-class men, do you not see a similar need with regard to commercial people ?

Dr. Jeidels : No, I do not think so.

Dr. Hyder : How did people in Europe get out of the hoarding habit and the stocking habit ?

Dr. Jeidels : Stockings do not produce interest.

Dr. Hyder : But they did hoard money in many countries and they do it still ?

Dr. Jeidels : They do not do it to a large extent, but they do it as long as they can dispense with interest.

Dr. Hyder : The main point is that the majority of the people there are educated ?

Dr. Jeidels : Propaganda can do a great deal in India. I do not think that in Western countries propaganda is so essential.

Dr. Hyder : Was it never done ?

Dr. Jeidels : To an extent banks have always done and still do some propaganda work through circulars, advertisement, etc.

Mr. Devadhar : I feel strongly that there is a large field for expansion ; *e.g.*, in respect of life insurance, there was not that convention to get one's life assured, but now you will see that a great improvement has taken place.

Dr. Jeidels : I agree that propaganda does a great deal.

Mr. Devadhar : Who is to do it ?

Dr. Jeidels: Those who are interested; I would leave it to the banks and bankers. Before opening a branch, the bank could probably try to open the ground by propaganda.

Mr. Devadhar: But you cannot always be sure of making both ends meet. You have to take a little risk.

Dr. Jeidels: Nobody expects a branch to pay in the first or even second year.

Ch. Mukhtar Singh: Would you advocate strong propaganda in favour of commercial banking?

Dr. Jeidels: I am not much in favour of official propaganda which serves business purposes.

Ch. Mukhtar Singh: But you would like the Indian banks to do it?

Dr. Jeidels: If I were a banker in this country, I would try to make banking as popular as possible.

Ch. Mukhtar Singh: And, therefore, you would advise propaganda?

Dr. Jeidels: If you ask me for advice, I would say that the banks themselves should do propaganda; I would leave it to the business side.

Ch. Mukhtar Singh: But the bankers may not be in a position to take it up?

Dr. Jeidels: One may rely on human nature which likes to make money, and on competition, which I value so much higher than my friend Mr. Subedar.

Mr. Manu Subedar: We shall soon reach an estimate of the relative values of competition.

Ch. Mukhtar Singh: Then you would like us to recommend propaganda even if bankers are not willing?

Dr. Jeidels: When they see an opportunity, I think bankers will welcome propaganda.

Ch. Mukhtar Singh: The first sentence in this paragraph, *viz.*, "the question whether the banking facilities of India are sufficiently large for the economic needs of the country has in the enquiry been almost unanimously answered in the negative—by non-bankers" seems to imply that no banker has ever done it. If any banker has told us that he is not willing to do propaganda, would you say that he was wrong?

Dr. Jeidels: I do not think that the majority of bankers would be unwilling.

Ch. Mukhtar Singh: The fact that it exists clearly shows that the man who knows his business would not do it.

Dr. Jeidels: Mr. Chairman, I would not like to be questioned on every single word of what I have written in the memorandum, but only on the essential contents of it. I stand for the contents, but am not prepared to defend every word.

Chairman: What Dr. Jeidels says is that the question has been answered by non-bankers. Does it follow from that that it has not been so answered by bankers?

Ch. Mukhtar Singh: I think it does. It gives the idea that if any bankers have done it, they would be considered non-bankers.

Dr. Jeidels: I have used the words 'almost unanimously'. You are certainly entitled to have a different opinion from mine.

Ch. Mukhtar Singh: From the whole paragraph I feel that you consider that banking facilities consist only of facilities for deposits.

Dr. Jeidels: No. I have said several times and am glad to repeat it, that a bank cannot do business beyond the volume of deposits which it receives.

Ch. Mukhtar Singh: If banking facilities include something other than deposits, then would you admit that the banking facilities are not sufficient ?

You admit that the banking facilities consist of facilities for deposits and facilities for certain other purposes. You maintain that, because there is no increase in deposits, therefore the banking facilities are sufficient.

Dr. Jeidels: Taking it for granted that all banks in this country together have to administer 200 crores of deposits, I think that the existing banking institutions are sufficient.

Ch. Mukhtar Singh: As far as the question of deposits goes, let us agree for argument's sake that there are sufficient banking facilities. Even though the facilities for depositing may be good enough, is it not possible that still the banking facilities may not be sufficient ?

Dr. Jeidels: You apparently understand banking facilities in a different way; you believe that lending money can be done independently of the volume of deposits.

Ch. Mukhtar Singh: I have not said that. Take the case of remittance discounting of bills ?

Mr. Khaitan: What Choudhri Mukhtar Singh means is not the discounting of bills drawn by customers and the bills being discounted by the bank, but the discounting of bank acceptances such as the banks themselves discount ?

Dr. Jeidels: To do any sort of business, you must have money.

Ch. Mukhtar Singh: Money can be got not only through deposits but also by banks selling bills ?

Dr. Jeidels: My understanding is limited to a banker's understanding.

Ch. Mukhtar Singh: My understanding is much less than yours in that case.

Dr. Jeidels: It is unfortunate.

Sir Purshotamdas Thakurdas: Dr. Jeidels is speaking from the point of view of a banker and Choudhri Mukhtar Singh from the poiut of view of a public man.

Ch. Mukhtar Singh: There are a number of banking facilities. The term 'banking facilities' consists of a number of other things.

Sir Purshotamdas Thakurdas: Did not Dr. Jeidels say that a man who wants to borrow may walk 5 or 10 miles in order to get it, but he should have available facilities to deposit money and he does not want to walk that distance in order to get that facility.

Ch. Mukhtar Singh: I can very well understand that there are no banking facilities in this country because there are no deposits; one is the sequence and the other the cause of it. But I cannot understand Dr. Jeidels to say that the banking facilities are quite sufficient.

Sir Purshotamdas Thakurdas: Because you say that people want to borrow.

Ch. Mukhtar Singh: People want to borrow cheap; people want to remit money from one place to another; people want to draw their bills for which they have paid at one end; all consist of banking facilities.

Sir Purshotamdas Thakurdas : I do not think it is quite correct to go on harping on that one sentence of Dr. Jeidels.

Ch. Mukhtar Singh : If he means that the banking facilities in this country are not sufficient, but as far as deposits go they are quite sufficient, I can agree with him.

Dr. Jeidels : You may take it that I am unable to answer your question more satisfactorily ; please ask the next question.

Ch. Mukhtar Singh : By the development of banking, you mean development of banking as it is done in other countries ?

Dr. Jeidels : Commercial banking.

Ch. Mukhtar Singh : Indigenous banking ?

Dr. Jeidels : Yes, indigenous banking is included in commercial banking.

Ch. Mukhtar Singh : When you say that banking facilities are sufficient in this country, do you mean there is no room for development ?

Dr. Jeidels : I never said that.

Ch. Mukhtar Singh : I quite appreciate that. Do you include indigenous banks also ?

Dr. Jeidels : Yes.

Ch. Mukhtar Singh : Would you not like the idea of replacing indigenous bankers by joint stock banks ?

Chairman : We might discuss it when we discuss the indigenous banker. Instead of having scrappy discussions, it might be convenient to everybody if we discussed it when dealing with indigenous bankers. Dr. Jeidels is willing to answer, but if I allow this, many other questions will be asked. I, therefore, ask you to reserve it to the next stage.

Ch. Mukhtar Singh : The other thing I have not been able to understand is this. In the first place you say that banking facilities are sufficient which means that there is no necessity of developing them. In another place you say that the establishment of branches of Imperial Bank ought to be encouraged.

Dr. Jeidels : Every sort of banking in the country ought to be encouraged.

Ch. Mukhtar Singh : Though banking facilities are quite sufficient ?

Dr. Jeidels : I have not said that banking facilities are sufficient for ever. I advocate to let matters develop as in the past under the economic law of competition ; the development will tend to extend banking facilities by new branches being opened and new banks being founded. In this way the country will in 10 years from now enjoy a much larger banking establishment.

Ch. Mukhtar Singh : You want the establishment of new branches and new banks. I quite appreciate the point that there should not be much competition amongst the different branches at a place where there is already a bank.

Dr. Jeidels : It is only an observation.

Ch. Mukhtar Singh : To avoid this, would you not suggest any authority from whom permission should be obtained before opening a branch ?

Dr. Jeidels : I do not think so.

Ch. Mukhtar Singh : Does it not obtain in other countries ?

Dr. Jeidels : No.

Ch. Mukhtar Singh : In no country is permission required for opening a new branch ?

Dr. Jeidels : Not of existing banks.

Ch. Mukhtar Singh: Would you advise that permission from a certain authority should be needed for opening new branches and banks.

Dr. Jeidels: I certainly do not recommend it. If you wish legitimate and proper extension of banks and bank branches throughout the country, then you ought not to create obstacles by setting up an authority which has to be asked before a bank can open. Certainly I do not advocate such regulation; I would regret it.

Ch. Mukhtar Singh: May I know why other countries have made such a regulation?

Dr. Jeidels: There is only one country I know in which branch banking is not allowed generally.

Ch. Mukhtar Singh: There are certain countries in which permission is required for opening a new branch; there may or may not exist a branch. I simply want to know why such a rule exists in certain countries and why should it not be helpful to us so that there may be no dangerous competition?

Dr. Jeidels: I think, Mr. Chairman, I can take it for granted that there is general desire for increased banking facilities in this country. I have only alluded to the consequence of over-banking in certain districts. If Mr. Mukhtar Singh prefers and if you think it would facilitate discussion, you may delete the sentence. It is an advice which I consider useful; those to whom it is submitted may take it or drop it. I suggest not to discuss it. It is really difficult to answer questions which it is scarcely possible to understand.

Chairman: That is not the point. Mr. Mukhtar Singh's point is this. In other countries there are regulations which provide that before a bank or a branch of a bank is established at a particular place, the approval or sanction of some authority should be obtained.

Dr. Jeidels: You can take it as granted that for practical purposes, with the exception of the United States of America where branch banking is in most respects forbidden there is no such regulation for extending a bank's branches. In a few states in Germany I think one has to get a consent, which, however, is more a sort of notification.

Chairman: In the United States under the Federal Reserve system permission has to be obtained. There are regulations against the opening of banks at places where there is already a bank.

Dr. Jeidels: As far as I know—I may be mistaken—it is forbidden to open branches in most of the States. In those States where it is allowed, no special permission is required.

Chairman: In Canada what is the position if a new bank is to be opened. Is not the permission of some authority required?

Mr. Cassels: Any bank can open a branch at any time. If a new bank is to be established, it has to be established under the laws governing banking.

Chairman: Don't those laws contemplate permission?

Mr. Cassels: Yes, of the Minister of Finance.

Chairman: This is the sort of thing that Mr. Mukhtar Singh has in view. He wants to know why these countries have made regulations to that effect. We have the two instances of Canada and the United States. The point is if there are countries like Canada and the United States where such a regulation is in force, could the experts tell us how those regulations came to be in force and why similar regulation should not be introduced into India?

Mr. Cassels: In regard to existing banks opening branches in Canada it is perfectly open to anyone to do so; there is no regulation in regard to it The question of establishing a new bank in Canada comes under the Canadian Banking Act, and anybody can establish a bank in Canada provided he conforms to the Canadian Bank Act.

Chairman: Is not one of the provisions of the Canadian Bank Act that the permission of the Minister of Finance should be obtained before a new bank is established ?

Mr. Cassels: Quite right.

Chairman: Mr. Mukhtar Singh's point is why such a provision is introduced in the Canadian legislation, confining ourselves for the moment to Canada ?

Mr. Cassels: I could not tell you the reason. It is an old Act which has been in existence for a good many years.

Chairman: If you cannot answer that question, that settles it. Arising out of that, came the second question. If there is such a regulation in Canada, why should not there be similar regulation in India.

Mr. Cassels: There is no reason why there should not be a regulation here.

Chairman: That is your view. That is what Dr. Jeidels was not prepared to agree.

Mr. Cassels: The Canadian system was not an adopted system. It was a made system, that is, a system that had grown up by a process of evolution; and just now it has been so evolved that it is possible to put it on the statute book by a separate Canadian Banking Act. One of the provisions is that anybody could establish a bank in Canada provided he adheres and conforms to the regulations laid down.

Chairman: And *inter alia* obtain the approval of the Minister of Finance. I fully realise that there is evolution here too in India; the banking system has been growing; and Mr. Mukhtar Singh's point, which undoubtedly struck us on various occasions is: why should not that provision be introduced in India. That is the only point on which we wanted the opinion of the experts. You said a little while ago that you saw no reason why such a provision should not be introduced in India.

Mr. Cassels: I do not see at all why it should not be introduced, if it is going to fit in with the country's needs.

Chairman: Therefore, if it is considered by this Committee that to meet Indian conditions such a provision should find a place either in the Indian banking law or in executive orders, in your opinion there is no reason why it should not be introduced.

Mr. Cassels: There is this difference, that if you introduce something entirely new here you might be up against a good many difficulties in changing the whole structure of your banking system. It opens up a very wide field.

Lala Harkishen Lal: Mr. Chairman, you have used "evolution". It would be engrafting from the experience of other countries.

Mr. Cassels: The difference is this. When this Act was brought into force, there was only one class of bank in Canada—Chartered Banks. That was all that was there; there were no other banks. This Act was framed for the existing banks. No change has been made. It has been built up into a separate Banking Act for the existing banks.

Chairman : Supposing I tell you that even the Exchange Banks' Association have advocated that there should be some such regulation in regard to future banks, then what would you say ? This question has been discussed by us very fully with various experts including the Exchange Banks' Association, and I am correct, Mr. Buckley, that they advocate that there should be some such regulation in regard to future banks, not in regard to existing banks.

Mr. Buckley : We see no objection to such a regulation.

Dr. Jeidels : Mr. Chairman, I do not mean to contradict Mr. Cassels. We are not speaking on the general question of regulation ; it will certainly come up later. In the present connection I am strongly against every sort of regulation, which might prevent creation of new banking facilities. I would really warn against any difficulty being put in the way of more banks being established. After ten years from now, one may reconsider it. At present encouragement should be given. All gentlemen, who took part in the discussion, have expressed themselves in favour of increased banking facilities, especially up country. As I have unintentionally led to this discussion, I may be allowed to suggest that we pass it over.

Chairman : I fully appreciate your point of view, Dr. Jeidels ; but still there is the point which I mentioned to Mr. Cassels. When they introduced regulation in Canada it could not be said that Canada was too full of banks ; there were only the Chartered Banks. For the present I agree with you to pass over this. I shall simply ask the other experts whether they subscribe to your point of view that there should be no regulation imposed on the opening of new banks to this extent that such a measure should require the approval, as in Canada say, of the Finance Minister or, as in the United States, of the Reserve Bank. I shall simply put it to the other experts.

Dr. Trip : I should like to say that we are one of the exceptional countries ; we are a free country ; we are a free trading country and banking also is absolutely free. There are no restrictions whatever on the establishment of banks.

Mr. Manu Subedar : You have just said that there is no restriction on he establishment of banks. But you have restrictions on the establishment of German banks by certain measures. I just wanted to remind you.

Dr. Trip : I will come to that point. I fully share the opinion that the more freedom there is and the more competition is allowed the better it is for the country. It may be different for the banks, but I agree with you in the general interests of the country. Therefore, I for one am opposed to any restrictions being placed on the establishment of banks or branches. The only limitation is banks which are not strong and which are a danger to the general interest of the country. The best way to restrict them is that the Reserve Bank of the country should refuse to grant them facilities, and then it will be impossible for the bank to work.

Chairman : You mean facilities for re-discounting ?

Dr. Trip : Yes. The only restriction that the Netherlands impose is that if a bank wants re-discounting facilities, it should be incorporated in Holland. That is the restriction that Mr. Manu Subedar referred to.

Chairman : Therefore you would be agreeable to impose a certain restriction of the nature you have indicated.

Dr. Trip : I would leave that to the Reserve Bank. I would make no legislative restrictions. Exchange banks are working in the Dutch East Indies. There is no Reserve Bank. They are not compelled to establish

one. They are quite free. We have Japanese, English and American banks working there ; they have branches there. For the economic development of the Dutch East Indies it is better to leave those strong banks to work freely in the country.

Dr. Hyder : Is there any restriction on any corporation or firm or individual doing business ?

Dr. Trip : Yes, because they have to pay a dividend tax ; all the joint stock banks have to pay. That is not a special measure applicable to banks, but it applies to all foreign companies that work in Holland, all foreign corporations.

Chairman : Mr. Cassels, do you subscribe to that view ?

Mr. Cassels : I do. I want to add a word of explanation, that when the Canadian Banking Act was drawn up, Canada was at that time fully banked. It was a regulation for the existing banks. Foreign banks are not excluded. They simply have to come into line with the same regulations as existing banks and the fact that foreign banks are not excluded is indicated by the fact that the last bank established a year or less than 2 years ago was the Barclay's bank. But it had to adhere to the same regulations as the existing Canadian banks.

Chairman : Mr. Cassels : I am afraid that there is some apprehension on your part. Assuming that we do not want to have this regulation only in the case of foreign banks as in Canada, if we want a regulation for all banks that before a new bank is established, be it foreign or be it internal, that it should require the approval of the Finance Member or the Reserve Bank, supposing something of that sort were in our mind, that is the only thing on which we want your views.

Lala Harkishen Lal : You have asked all the members to give a definite reply to the question of regulation. I may have to cross-examine them on that.

Chairman : Yes. I am only asking their views. If you thereafter want to cross-examine them, by all means do so.

Lala Harkishen Lal : The views must depend on the opportunity and the case as put to them. The case may be put to them very differently on the other occasion. Therefore the question of this regulation should be left to that particular occasion. On no other question have you asked all the members to give their views in advance. Every time that an important question has come up, you have ruled that that ought to be left over to such time as the matter itself is under consideration.

Chairman : The regulation is not under consideration. But I do not think that they have dealt with it in any other part of this memorandum and if they prefer not to express an opinion then, I have always left it to them. In this sense if you want it to be reserved, I am quite willing to reserve it.

Lala Harkishen Lal : That is my view. The matter that is being put to them does not embrace all the aspects of the question.

Mr. Cassels : May I be permitted to say that I think this matter should be left over until the banking regulations come up.

Chairman : This matter will be left open until we are discussing the question of regulation of banks. Therefore, you need not pursue the matter.

Ch. Mukhtar Singh: Am I correct in assuming that you maintain that in an agricultural country there would necessarily be a less number of banks and less banking facilities ?

Dr. Jeidels: Yes.

Ch. Mukhtar Singh: May I know the number of banks either by mileage or by population or on some other basis in Germany, in Canada and in the United States of America ? Is it a fact that in England there are the largest number of banks, in Germany there are less banks, in the United States of America still less and in Canada still less ?

Chairman: If you have that information is it necessary to ask Dr. Jeidel for it ?

Ch. Mukhtar Singh: I simply ask for that information to support this argument of his with those figures.

Chairman: You have not got the information ?

Ch. Mukhtar Singh: No. I want to know whether this idea of yours that in an agricultural country there ought to be less banking facilities. . . . . .

Dr. Jeidels: No, I did not say that. They are naturally less. In Germany single banking establishments—every branch counts as a unit—including the co-operative credit societies number 28,000. Of these 7,000 are real banks and 21,000 are co-operative credit societies.

Ch. Mukhtar Singh: And in the United States ?

Dr. Jeidels: I cannot say.

Mr. Cassels: In Canada there are about 4,500 branches of banks with a population of 10 millions. There is, accordingly, one bank for each 2,200 people.

Mr. Manu Subedar: In Germany the agricultural population is 14 millions out of a total population of 63 million. In Canada would the agricultural population be about 90 per cent ?

Mr. Cassels: Nothing like that.

Mr. Ramdas Pantulu: In your memorandum you say: "The question whether the banking facilities of India are sufficiently large for the economic needs of the country has in the Enquiry been almost unanimously answered in the negative by the non-bankers." By non-bankers do you mean the ordinary lay public ?

Dr. Jeidels: I mean the witneesses. I have read the evidence of 83 witnesses. Of these 83 witnesses the majority have said that there is not sufficient banking and those who said so almost all were non-bankers.

Mr. Ramdas Pantulu: Non-bankers are connected with commerce, trade and industry, are they not ?

Dr. Jeidels: Yes, generally.

Mr. Ramdas Pantulu: Your opinion is based upon the possibilities of banking against the deposits. Are you prepared to say that the demand made by the borrowing public connected with trade, industry and commerce that they want more banking facilities is not correct ?

Dr. Jeidels: The demands of the borrowers are not quite satisfied ? I do not know of any country where they are satisfied.

Mr. Ramdas Pantulu: The people whom this Committee had invited, not only bankers but also the people who want the assistance of banks—and the people who want the assistance of banks are traders—they have said almost

unanimously that they have not banking facilities. Do you think that this Committee ought to address itself to the question of how to supply the needs of these people who are connected with trade and commerce ?

Dr. Jeidels : Banks can only give facilities if they have sufficient working capital ; about nine-tenths of the working capital consists of deposits.

Mr. Ramdas Pantulu : When I am satisfied that the limit of deposits in this country is reached and that much more money cannot be forthcoming, I for one, might advise the Committee of the advisability of attracting external capital.

Dr. Jeidels : Domestic banking facilities are limited ; general economic needs have to adopt themselves to this limit or have to find other sources. There are, however, not many to take the place of domestic bank loans. Foreign facilities are not available for all kinds of needs. The logical answer is that a country has to adapt its needs to the possibilities, demand to supply, and banking supply is practically identical with the volume of deposits.

Mr. Ramdas Pantulu : The problem about the shyness of capital in India is by itself a matter of controversy between two sets of people. What I want to know is whether you have made any intimate enquiry as to the existence of such capital or as to the alleged shyness of such capital ?

Dr. Jeidels : I have taken the pains, perhaps not successfully, to try an estimate of the Indian capital market, which you will have an opportunity to read, also how the capital market in India could eventually be enlarged. We will have to discuss this, when the subject " investment habit " comes up in connection with industrial banking.

Mr. Ramdas Pantulu : Have you made any enquiry ?

Dr. Jeidels : I have given the matter a great deal of thought, and doubt whether much more bank deposits are available than those which we know at present.

Mr. Ramdas Pantulu : Is it not possible that the indigenous bankers may have in these 10 years more deposits than we know of ?

Dr. Jeidels : We spoke about the deposits with the indigenous banker yesterday, but did not arrive at a conclusion. None of you could give a much better estimate than we experts. The liquid resources, for which figures are available, are the bank deposits—those of the exchange banks, the Imperial Bank, the joint stock banks, the post office savings banks and the co-operative credit societies.

Chairman : I think you have discussed that matter, that the transfer of the money, which is now in deposit with indigenous bankers to commercial banks of the western type, does not in any way increase the total amount of depositable capital of the commercial banks.

Mr. Ramdas Pantulu : May I tell you why I am pursuing this question of the available capital, in spite of the fact that you have answered it more or less fully from your own standpoint ? It seems to me that your inference is based upon the statistical figures from the Post Office, etc., but there may be causes which operate against the money finding its way into these sources. In regard to our co-operative credit banks, which are absolutely like commercial banks, so far as attracting capital is concerned, I may tell you that in the last 18 years we were able to get capital to the extent of 40 or 50 crores, of which we did not know the existence in the villages. To-day we are not in any difficulty in getting more money but our difficulty is to use all the money we

get. If we want to tap more money we are absolutely able to get it ; that is my personal experience. I therefore think that there are more facts which you ought to investigate before you dogmatise by saying that the limit of capital has been reached.

Dr. Jeidels : I give you the figures on which I base my argument. I count three times 70 crores for the three groups of banks ; I count another 70 crores for postal savings ; I venture an estimate of about 100 crores for working capital of indigenous bankers of all kinds and I add an estimate of 1,000 crores used in moneylending. One has to operate with such figures as are available. My figures include two very rough estimates, which I admit as very arbitrary : 100 crores with the indigenous bankers and 1,000 crores invested in moneylending. I do not wish to defend these figures ; I submit them for consideration.

30th January 1931.

Mr. Lamond: With regard to the development of banking during the last ten years Mr. Khaitan brought out certain points yesterday which, he considered, affect deposits. There are one or two other points which might also be considered. Mr. Khaitan referred to the index number. In the last ten years you agreed that there was an increase in the value of the deposits or in the purchasing value of the deposits. You also admitted Government borrowings particularly treasury bills, affect deposits. Another point is the transfer of capital during the last ten years from this country which must also affect bank deposits to a very great extent. Another point is that during the last ten years Government have authorised public bodies to deposit their money in concerns other than commercial banks. In the last few years permission has also been given to co-operative banks to receive deposits from public bodies. Now the transfer has been very large. The deposits of public bodies with co-operative banks are over 2 crores. That is money withdrawn from commercial banks.

Dr. Jeidels: Does this information mean, that at the beginning of the ten year period the balances of banks with the Imperial Bank were larger in proportion?

Mr. Lamond: What I mean is that deposits for 1919-20 included these amounts. The amounts which may have been removed later also prevented fresh money coming into banks and helping their growth. Another thing which must also be taken into consideration is the duplication of deposits. The duplication of deposits is very much less to-day than ten years ago. What I mean is that the exchange banks' balances with other banks or the lending of exchange banks between themselves is less to-day than ten years ago. The figures we have given confidentially to the Committee show the banks' balances to be about 2 crores, so that if you take all these things into consideration, the figure for 1928 really shows a very big tapping of fresh money. There has been a very big development of banking, in the country in the last ten years if you take these facts into consideration which are not apparent from the figures. The position really, is that big deposits have gone down and been replaced by small deposits, and that means fresh sources of deposit.—

Dr. Jeidels: The banker who holds the accounts is in the best position to judge from the number of depositors and the character of the deposits and whether there has been a tapping of new sources.

Mr. Lamond: On the other side of the balance sheet, the assets side, the money required to finance big industries, to move big crops, is very much less than it was in the first part of the last ten years. Cotton has gone down, jute has gone down, and very much less is required.

Dr. Jeidels: The drop in prices began in 1925-26; it finds expressions in the index figures.

Mr. Lamond: One other point I should like to mention. Interest is not being paid on current accounts by the Imperial Bank because we are the bankers' bank, and we feel it unfair to pay interest on current accounts in competition with other banks.

Lala Harkishen Lal: Yesterday you were told by Mr. Khaitan that though the actual number of rupees may not have increased, their value

has increased and to-day you are told that the actual requirements have decreased, and, therefore, the deposits are sufficient. That is what Mr. Lamond's figures will imply. In other words the requirements or the demand for money is smaller for the same turnover in weight, the amount of money required for circulation ought to be smaller than it was 3, 4, or 5 years ago. But an indication of that would be in the rate of interest charged, and especially in the rate of interest fixed by the Imperial Bank in the busy season.

Dr. Jeidels: I do not see it.

Lala Harkishen Lal: If there is more money in the market than is required, naturally the interest rate goes down?

Dr. Jeidels: You cannot count the same factor several times. The amount of deposits is Rs. 70 crores to-day, which is more or less the same figure as ten years ago; but it means something different because it has a higher purchasing power. The change in purchasing power does however, not create a different situation with regard to supply and demand in the money market, because the demand for loans and the deposits available for it with the banks have not changed in relation to each other. This finds expression in the rate of interest.

Lala Harkishen Lal: It does. Sugar factories which required so much per cwt. require so much less per cwt. The difference must remain in the bank.

Dr. Jeidels: Then you suggest that there has been no general development in trade.

Lala Harkishen Lal: Yes. Also so far as the figures of imports and exports are concerned there is a decrease.

Dr. Jeidels: The Sugar factory needs less working capital than it did at higher prices.

Lala Harkishen Lal. You can reckon up. There has been no large increase in industrial production in the last few years. The sugar production in the Punjab has not gone up. The cotton production and the piece-goods production are not higher now than they were. Another factor you will have to consider is the bank cash balances. These show a downward tendency, and so far as I have heard yesterday, the Imperial Bank is in the hands of the Currency officer with regard to Government borowings. Cash balances are small, but last year about this time they were 6 to 7 crores, it is only one crore now.

Mr. Buckley: There have been no currency borrowings since April 1929.

Sir Purshotamdas Thakurdas: What is called the emergency borrowing from Government.

Dr. Jeidels: I have not much to say about that.

Mr. Lamond: On this point I should like to give an explanation. The banks in India are to-day working much more finely than they did years ago. In case of emergency they fall back on the Imperial Bank

Lala Harkishen Lal: If deposit value has increased and if deposits come in largely from sources which are not shown, and the demands have decreased, the interest must not increase.

Dr. Trip: Is there less demand from the whole community?

Mr. Lamond: The requirements of money are smaller on account of the fall in prices.

Lala Harkishen Lal: Now if you say that the public demand or the commercial demand might have decreased, the Government demand should have increased, and kept up the rate of interest. Then it means that Government borrowing has influence on deposits.

Dr. Trip: I should like to say that Government borrowing has influence on the bank rate.

Lala Harkishen Lal: I make a bit wider proposition. Government borrowings have influence not only on the rate of discount of the Imperial Bank, the interest rate of joint stock banks, money lenders and so on, but also on the deposits.

Dr. Trip: I suppose so.

Dr. Jeidels: It shows that there has been a fair development of banking resources and banking facilities, a fair but not a rapid and perhaps not a quite satisfactory one; more it does not show.

Lala Harkishen Lal: The point I am raising is this. Banking facilities are not sufficiently extended. The reason is that our rate of interest is high compared even with countries which have gone out for improvement after the war, and so long as our rates of interest are higher than those of other countries, banking facilities cannot be as good as in those countries.

Dr. Jeidels: The rate of interest in this country as compared with others, seems to me not to belong in this discussion.

Chairman: You really do not want to discuss the question whether the rate of interest in this country is higher or lower than in certain other countries. That is not at the present moment for discussion, but beginning with this fact which we shall be glad to discuss, you want to draw certain inferences which in your opinion conflict with the inference or opinion expressed in this document, and, therefore, you want to pursue the matter here.

Lala Harkishen Lal: Yes. Within the last two years the rate of interest has not decreased, while the deposits nominally have also not increased. Therefore my inference is that trade requirements, industrial requirements, would have increased if the rate of interest showed a tendency to fall. Because the rate of interest does not show a tendency to fall, commercial and industrial enterprise is at a standstill.

Dr. Jeidels: I can put on the table statistics which I have here regarding rates of interest in many countries, about 20 European countries, some foreign countries and also British India. They can be discussed with greater value in connection with money market. Here are the rates of interest for British India. The figures do not show such a sharp rise in interest rates.

Interest Rates.

Country.	1922.	1923.	1924.	1925.	1926.	1927.	1928.	1929.
Belgium	4·7	5·4	5·5	5·7	7·0	5·4	4·2	4·3
Denmark	5·1	5·7	6·9	6·4	5·2	5	5	5·1
France	5·1	5	6	6·5	6·6	5·2	3·2	3·5
Great Britain	3·7	3·5	4	4·6	5	4·6	4·5	5·5
Italy	5·8	5·5	5·5	6·5	7	7	5·9	6·8
Holland	4·3	4·0	4·9	3·9	3·5	3·7	4·5	5·1
Sweden	4·8	4·6	5·5	5·2	4·5	4·1	4·0	4·7
U. S. A.	4·2	4·4	3·7	3·4	3·8	3·8	4·5	5·2
India	5·8	5·9	6·7	5·6	4·8	5·7	6·2	6·3
Japan	8	8	8	7·5	7·1	5·9	5.5	5·5
Germany	6·3	38·7	10	9 1	6·7	5·8	7	7·1

Lala Harkishen Lal: I do not say the rates are higher, but that the rate of interest continues high.

Dr. Jeidels: The rate has been increasing up to 1929 in Great Britain. The development is different particularly in France, but that country is least fit for comparison.

Chairman: Leaving out France, the general experience is that the rate of interest has gone up.

Dr. Jeidels: Comparatively high rates with no decisive downward trend.

Lala Harkishen Lal: Is it not a fact that in those countries where the interest has a tendency to rise again, the common complaint is that banking facilities and finance are not in good condition?

Dr. Jeidels: In my own country there is more recently a rising tendency in interest rates; it has been rather accentuated in December and January, but nobody will say that banking facilities are generally not sufficient.

Lala Harkishen Lal: I used the words—banking facilities and finance. Is it not also a fact that there are now large numbers of bills of Germans in the London market than there were when the interest was low.

Dr. Jeidels: The amount of bills in circulation in Germany is smaller now than two years ago, owing to the reduced price level; I think it has gone down from 12,000 to 9,000 millions Reichsmark.

Lala Harkishen Lal: It is the amount, not the number, of bills that must be smaller?

Dr. Jeidels: Normal progressive development in trade is at some periods offset by the business cycle; these trends may go parallel or may overlap or keep each other in balance.

If the Imperial Bank has had ten years ago and now the same 70 crores of deposits, normal development and reduction in price have balanced each other.

Lala Harkishen Lal: My point is that from the evidence of the rate of interest and the quantity of deposits I would conclude that there are not sufficiently extended banking facilities. I am asking you whether the banking facilities here are on a par with other countries?

Dr. Jeidels: What do you mean by "banking facilities"?

Lala Harkishen Lal: Would you please define it?

Dr. Jeidels: As I understand it, the extent of banking facilities is defined by the deposits available.

Lala Harkishen Lal: I understand banking facilities to consist of two sides—facilities for the depositor to deposit his money with a good bank and facilities for the borrower to be able to get money at reasonable competitive rates of interest.

Dr. Jeidels: We agree on it.

Lala Harkishen Lal: I say that a man cannot get money at competitive rates in India.

Dr. Jeidels: What is it due to? To lack of deposits, I presume.

Lala Harkishen Lal: Very likely. In the same way, from the borrower's point of view they are not sufficiently extended.

Dr. Jeidels: We discussed this yesterday afternoon extensively.

Lala Harkishen Lal: Was it admitted yesterday that the class of borrower who wants money for various requirements cannot get it at cheap rates and is it on record?

Dr. Jeidels: If I may repeat your question; you ask "Is there more demand for loans than can be satisfied by the banks?" I may well answer: Yes.

Lala Harkishen Lal: Therefore, higher rates of interest prevail.

Chairman: The rates of interest were not discussed yesterday.

Lala Harkishen Lal: I adduce the rate of interest as evidence.

Chairman: Then it is admitted.

Mr. Manu Subedar: It is understood that people require loans and have got adequate security to give and they are unable to get loans.

Dr. Jeidels: I do not know whether these are loans suitable to the banks. When there are people in the country who can offer sufficient security and yet do not get loans, then there is scarcity of banking facilities. You say that there are people who do not get the necessary bank loans although they are good parties and offer the usual security. If you say so . . . .

Lala Harkishen Lal: I say so with two evidence which I produce before you. One is the rate of interest. If everybody could get money from the bank, then the rate of interest would be lower.

Dr. Jeidels: If demand and supply in bank loans balance, or if the demand is smaller than the supply then the rate of interest should become lower.

Mr. Manu Subedar: If the demand is larger, then the rate will be high?

Dr. Jeidels: Then there will be a tendency for the rates to rise.

Mr. Manu Subedar: If the rates are high then it shows that the demand is larger?

Dr. Jeidels: Not necessarily. One cannot express a general opinion whether 6 per cent. or 5 or 7 per cent. is a high rate, because no sensible expert ought to answer the question whether the demands for credit in the country are satisfied or not. I think no expert can answer. How could he know it?

Lala Harkishen Lal: You can form your opinion on the rate of interest prevailing.

Dr. Jeidels: The figures which I have read to you for the years 1922-29, do not show a particularly high rate and therefore do not signify an essential discrepancy between supply and demand.

Lala Harkishen Lal: What am I to take—whether the admission is made or not made.

Chairman: Is it your considered opinion that the demand for loans on proper security is fully satisfied by the banking facilities at the present moment available?

Lala Harkishen Lal: In the light of the interest question.

Chairman: Interest may be one of the considerations. There may be many other considerations. But the proposition is broadly stated. As the result of what you have seen, is it your impression that the demand for loans in this country on adequate security is sufficiently met by the banking facilities already existing?

Dr. Jeidels: To answer the question, one has to consult two sources. One is the banks' balance sheets; which would show a reduction of liquid assets. A second source is information from reliable witnesses and from newspapers; such information may tell that people, offering all necessary security, yet do not in many cases receive loans from banks. I do not know any other source from which to answer the question. From the balance sheets it does not appear that there is an unsatisfied demand for loans, because the balance sheets, which I have seen, are all rather liquid; it shows that demand and supply for loans more or less balance. With regard to witnesses and similar kind of information, I am not sufficiently supplied with it, and therefore must refer exclusively to the balance sheet. The best balance sheet for this purpose are monthly statements. Our banks publish monthly statements from which the ratio of liquid assets to loans of various kinds are apparent. Using the balance sheets here as

they are, I cannot find that the demand for bank loans is visibly in excess of the supply.

Chairman: Would not the inference from a study of the balance sheet be this, that at the rate at which the Bank grants loans, the demand is sufficiently met. If it were possible for the Bank to grant loans at a lower rate of interest it would not have been possible for them to meet all demands?

Dr. Jeidels: Indeed, with a lower rate of interest as a rule the demand increases.

Chairman: That brings in Lalaji's point.

Dr. Jeidels: Bank loans are a commodity, and with lower price generally but not always, demand increases. Cotton and money are quite similar in this regard. You know that all over the world during the present economic crisis demand for bank loans did not increase in spite of lower interest rates; demand even decreased owing to depression in trade. Therefore it is not exclusively the rate of interest which determines the volume of demand. Economic conditions, trade activity, the business cycle are essential factors.

Chairman: Let us take the case of a sugar factory. If it can get money at a lower rate of interest, it might want to take more money for the simple reason that by using that money in the business at the current price of sugar, it might still make a profit.

Dr. Jeidels: I do not think it can ever be exactly determined for what reasons demand increases or decreases. The rate of interest plays a part just as the price in the demand for any commodity.

Chairman: I think we had better now finish this discussion. I take it that your proposition is this, that from a study of the bank balance sheets you have arrived at the conclusion that at the rates charged the present facilities sufficiently meet the demand. That is all that you can say.

Dr. Jeidels: That puts it correctly.

Dr. Hyder: Is the demand for credit elastic or inelastic? Suppose the price goes down, what would happen?

Dr. Jeidels: One cannot give a uniform answer. There are two tendencies or trends which may balance or increase each other; one is the general condition of trade, economic depression or economic prosperity, and the other is the price of money. Reduction in the rate of interest, which has taken place in many European countries and in the United States of America during the last months has not resulted in increase of trade or demand for loans. This applies to practically all western countries during the last six months with the exception of my country, where particular circumstances prevail. Rates for money in France, England, Holand, Switzerland, the United States have come down during the year 1930 without being followed by an increase in demand. The cause is the economic crisis. I do not think I have to tell the economists present that price of a commodity and demand for a commodity are two quite different matters. Both influence each other; and it can happen sometimes both are added, sometimes one is subtracted from the other and sometimes they balance.

Chairman: May I pursue this discussion on general economics a little further? You know at the present moment there is a great world competition. I shall focus my attention on the sugar factory to which Lalaji refers. If it were the fact that India alone is producing the sugar and therefore she can produce the sugar at any price she likes, or even if it were the case that no sugar grown outside India is coming into India, then I should be quite willing to subscribe to your thesis that it does not matter what the rate of interest is. But the price of the commodity under present conditions all over the world is affected by various other considerations, and therefore, if the rate of interest in India is higher than, (taking all other considerations to be the same, but they are not) in any of the other competing countries, obviously the sugar factory referred to could not possibly live on those rates of interest. It may want further credit at certain rates of interest. It cannot possibly go beyond that rate of interest without finding the business unprofitable. But the banks according to your statement are unwilling to supply the credit at that rate of interest. They charge a higher rate of interest. Therefore, that will operate against that particular sugar factory.

Dr. Jeidels: You have made two statements. As far as it concerns the question whether for India the rate of interest at least for the majority of commodities is of great importance, I subscribe to it. In all commodities where India has to compete with other countries, where one item of cost of production, the rate of interest, is lower, the competing countries are in a better position than India. The high rate of interest is in such case unfortunate. But you said, "If the banks charge higher rates." This implies a kind of responsibility on the part of banks for the higher rates of interest, and this I cannot subscribe to.

Chairman: I do not mean to say that the bank is responsible. I simply look at the facts. I do not blame the bank. The position regarding the interest rate, etc., we shall discuss later on.

Mr. Manu Subedar: I would like to understand what you say. If there is an economic crisis, business is slack and therefore the demand for money is less. Is that not so?

Dr. Jeidels: Yes.

Mr. Manu Subedar: That being so, it is not the bankers' arbitrary fixing of the rate.

Dr. Jeidels: The money market establishes the rate.

Mr. Manu Subedar: In your opinion, is not India passing through an economic crisis of a serious type?

Dr. Jeidels: But this economic crisis is international.

Chairman: Mr. Manu Subedar is more concerned with India than any other country.—He asks whether there is an economic crisis; of course that concerns India also.

Mr. Manu Subedar: In your opinion an economic crisis reduces business and, therefore, reduces the demand for money?

Dr. Jeidels: Yes.

Mr. Manu Subedar: In India there has been an economic crisis during the last two years and from that point of view, the demand for money should be less.

Dr. Jeidels: Yes.

Mr. Manu Subedar: That being so, the rates should be low, but they actually are not.

Chairman: The answer is that Government is borrowing.

Mr. Manu Subedar: I would say with all respect that it is not correct for you, Mr. Chairman, to answer the question.

Dr. Jeidels: I did not expect to have to go into these high problems of political economy, reaching far beyond banking conditions. It is a dangerous venture to express opinion on a subject on which hundreds of books have been written by political economists of the highest class. I am following the method of stating facts and observations where I do not know a solution of the problem; I do not try to draw conclusions which do not satisfy me. The problem, which is extremely difficult, is the following: why do money rates in a country where trade activity has undoubtedly decreased, do not go down correspondingly and in accordance with past experience and with other countries?—This condition exists at present in several countries; it does in my country, it does in India, in Australia, it exists in some, but not in many countries. Permit me to venture the following observation. Government, States, Municipalities, show in my country as in others in times of economic crisis an increased demand on the money market. This observation is quite general and affects the various countries according to the state of their liquid assets. An economic crisis leads, at least in the outset, to an increase of public expenditure, while revenue decreases. In the compound balance sheet of the country there appears an item of demand for money which is not immediately a trade demand. Trade demand for money has undoubtedly gone down partly due to lower commodity prices, partly owing to the reduced volume of business. But a new demand has appeared, *i.e.*, the demand of public finance. It is to this that I attribute the comparatively tight money market in my country. The state of public finance in this country you know better than I do. Here too is a reduction of revenue and therefore an increased demand for money for public finance. I think, this state of affairs is rather general all over the world; all Governments are borrowing more than they did in times of economic prosperity.

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Chairman: I would request you to go on with your answer, because it concerns most of us and me in particular and that is why I did not want you to overlook the other aspect. With the considerable experience you have in Germany I would like you to give us your views on the whole problem.

Dr. Jeidels: In summary: trade demand has diminished as it is bound to do in times of business depression; but a new demand appears in the market, *i.e.*, the Government deficit.

Mr. Manu Subedar: Does it appear in the form of Treasury Bills or is it short-period borrowing or long-period borrowing?

Dr. Jeidels: It is a matter of financial policy of Government and depends, of course, on the rate of interest and market conditions for Government bonds and treasury bills.

Chairman: It also depends on maturing debt.

Dr. Jeidels: Yes. Maturing debt also increases a demand which is not a trade demand. In accordance with the difference of rates for long term and short term borrowing and with the inclination of the investing public one may say that many governments borrow at present on short term or for 3 to 5 years, which means that they appeal not only to the investment, but also largely to the money-market.

Mr. Manu Subedar: Or, have they to create a floating debt?

Dr. Jeidels: In those countries where there is a broad money market with low rates, like in England or the United States Government borrows freely in form of treasury bills. In countries with a less broad money market, as for example in my country Government needs require very careful handling; there Government prefers to loan on longer term instead of absorbing the limited short-term resources of the money-market.

Sir Purshotamdas Thakurdas: I just want to ask one question which to my mind would clear up the position from the point of view which strikes me. It appears to me that Dr. Jeidels' reply to this question "Are the banking facilities sufficiently extended" is "Yes, as far as the information given by the bank reports go." Would that be a correct inference from your reply?

Dr. Jeidels: Yes.

Lala Harkishen Lal: Whether we are satisfied with that answer is a different question.

Sir Purshotamdas Thakurdas: I am only trying to get my next point, which is that these reports are reports of 18 Exchange banks and 74 Indian joint stock banks with a capital of more than one lakh of rupees, and the Imperial Bank.

Dr. Jeidels: I have looked at the statements of the principal joint stock banks and the Imperial Bank.

Sir Purshotamdas Thakurdas: Even supposing that you had the chance of going through some of these, it means that you have come to that conclusion from the reports of 93 institutions in India.

Dr. Jeidels: Those from which I formed my opinion, constitute, about 75 per cent. of all deposits; they are all contained in the pages of the Indian Finance Banking Enquiry Number. It is not necessary to go into the balance-sheets of the smaller banks.

Sir Purshotamdas Thakurdas: What about the other institutions which play a very important part in financing India, *e.g.*, the co-operative credit societies and the indigenous bankers and moneylenders? Have you had any material before you came to this conclusion tentatively that the banking facilities were adequate for the present needs of India and have you given any thought to this part of it which, as I have given you the number, goes into about 300,000?

Dr. Jeidels: My statement says that it applies to commercial banking proper. It does not include moneylenders nor co-operative societies. It is principally based on the facts of the Imperial Bank and the joint stock banks. With regard to indigenous banks I stated that the available material is not sufficient for a valuable estimate of all figures which are not contained in published balance-sheets. Therefore I cannot answer the question whether banking facilities with indigenous bankers are sufficiently large and whether with those bankers demand and supply balance in about the same way as I derived it from the balance sheets for the other commercial banks.

Sir Purshotamdas Thakurdas: Therefore, in arriving at your conclusion you have not been able to get at any information regarding the class served by this institution.

Dr. Jeidels: The other day I put on the table compiled figures from monthly statements of German banks; there are three classes of banks; the large Berlin banks, provincial banks and public banks,—if I see the figures of one of these classes, I can draw conclusions how the situation is with the others.

Sir Purshotamdas Thakurdas: Do you not think that that conclusion may be very misleading even to you? I mean that if the class served by the three institutions are more or less so different that the one affects the other, it may be very misleading.

Dr. Jeidels: My opinion is based on published balance sheets, not on occasional rumours. I cannot speak about banks whose balance sheets are unknown not only to myself but practically to anybody. Conclusions from one class of banks on another class of banks may not be as legitimate as it is in other countries; I realise this and leave it to your judgment whether the balance sheets of the Imperial Bank, the larger and the smaller joint stock banks, which are all no doubt interesting and valuable material, allow conclusions also on the indigenous bankers' position or not. I do not want to express a judgment of my own, but wish to state that between various banking institutions of similar kind, and therefore between the various institutions for commercial banking there is always a certain relationship; evidently there is not the same relationship, between co-operative banks and commercial banks.

Sir Purshotamdas Thakurdas: Therefore, all that you have said is subject to this: that the conditions prevailing in the class served by the indigenous bankers and the moneylender class are not included in your view.

Dr. Jeidels: They are not.

Sir Hugh Coke: I have one question arising out of the discussion yesterday. On the question of encouraging deposits, it was pointed out that there might be deposits waiting to be encouraged, but there are so many places in India which are obviously not large enough to have a branch

of a bank. There is an indigenous bank, I take it, in practically every place of any size at all. The question does arise in view of the remarks which have been made whether the indigenous banker will attract deposits and whether he is sufficiently trusted. Then we got on to the post office savings banks and it was pointed out that they did not meet the demand, because you could not draw your money out easily and so forth. The question I want to ask is this: Is there any country in which postal banking is adopted more on the lines of ordinary banking where withdrawals can be made more easily and would you consider the possibility of such in India from what you have seen?—

Dr. Jeidels: I would be rather glad if no postal savings system existed in the country; it would give me the opportunity for a nice practical suggestion, namely to establish such a system. To no country a postal savings institution can be more suitable than one with a great number of larger villages or small towns; their economic structure does not readily suit joint stock banks or branches, I would therefore always advocate for such countries the establishment of a postal savings institution. In my country we have no postal savings institution, because the economic structure allows banks to spread far into the country, and there exists a net work of municipal savings institutions as well as a thoroughly developed co-operative banking system. From academical side a postal savings institution has often been recommended in Germany, but in view of those other existing institutions there is no necessity for it and it is even doubtful whether it would not lead to over-organization. In this country it is quite a different matter.

Sir Hugh Cocke: That does not quite meet my point. We have got postal savings banks which are very largely used. What I want to know is whether in your view it would be possible to extend that and make it a different kind of banking. It has been shown that there are not enough deposits to attract a branch of a bank. And I want to know whether in any country post offices are used for ordinary banking as distinct from savings banking.

Dr. Jeidels: You mean transmittance of funds?

Sir Hugh Cocke: Yes, but mainly the question of drawing cheques on deposit accounts.

Dr. Jeidels: From my experience it could only mean the so-called postal cheques, for transmittance of money through the post office.

Sir Hugh Cocke: It is the formalities of withdrawing which are the difficulty with the ignorant villager.

Dr. Jeidels: The postal cheque system exists in many countries, but it requiries, I think, a rather high standard of education all over the country.

Sir Hugh Cocke: There is no difficulty about transmitting. Money orders are used tremendously in India.

Dr. Jeidels: I know it.

Sir Hugh Cocke: My point is that the ignorant villager will be reluctant to open a postal savings bank as now constituted on account of the difficulties of withdrawing. Could the procedure be simplified, so that he could go and draw his Rs. 5, 10 or 15 when he wanted it over the counter without having to give notice to the post office.

Dr. Jeidels: I would not advocate the development of the postal savings institution into regular banking, because we ought to try to draw as many bank branches as possible into the smaller towns.

Sir Hugh Cocke: But it may be 50 years before many of these places are ready for banks. They are so small. It will be years and years before a bank can ever reach many hundreds of these places. Could not the Government step in and do something more than they are doing under the existing arrangements of post office savings bank?

Dr. Jeidels: It would never be able to extend banking business to giving loans

Sir Hugh Cocke: No, but it would attract deposits.

Dr. Jeidels: It could take deposits in a somewhat more modern form.

Sir Hugh Cocke: It would encourage thrift and bring out deposits which would not go to the indigenous banker because he is not trusted.

Dr. Jeidels: I am not really in favour of an extension of postal institution into banking business. There should be a certain amount of competition in attracting deposits in those places where no banks exist or where banks are not possible; the postal savings institution is extremely valuable to the country, but I would not recommend to develop them in a direction which would make it less attractive for banks to open branches.

Sir Purshotamdas Thakurdas: I want to put to you a question regarding hoarding. I find there is a reference in one of the other papers. May I put that question now?

Dr. Jeidels: I have mentioned the subject in my paper about the Investment market.

Sir Purshotamdas Thakurdas: Therefore, I am asking whether you would like to be questioned now.

Dr. Jeidels: In view of the great importance of the subject I would rather recommend to postpone it for special discussion.

Sir Purshotamdas Thakurdas: I am quite ready to postpone it till then.

I wish to refer or supplement the information which my friend Mr. Khaitan gave you in connection with how capital has been attracted during the last 10 years I think he would himself like it. Provincial and Central co-operative banks with a capital of 1 lakh and above had deposits and loans in 1919-20 of 3 crores and 60 lakhs. In these 10 years 20 crores might have gone there. It has great relevancy to the figures which you give in your memorandum and to the view which Mr. Khaitan put to you yesterday. I wonder whether you propose to revise your reasoning in these two paragraphs?

Dr. Jeidels: I would not care to because I dealt with the possibilities for commercial banks to tap these resources. Some resources can be tapped by other institutions some by postal savings, some by co-operative organisations; but I doubt if the same resources can be tapped just as well by commercial banks.

Sir Purshotamdas Thakurdas: I think you were dealing more with the country abounding in untapped banking possibilities; getting more capital to banks, whether indigenous, co-operative, commercial and making more capital available to the borrowers.

Dr. Jeidels: I dealt only with commercial banks and their ability to tap. I doubt, whether the 40 crores, which I have in mind as deposits with co-operative organisations, would be available to banks; they are most valuable to the co-operative movement, which ought to cultivate them. In Germany the amount of deposits not available for banks but available to co-operative societies is as high as 3400 million marks which is more than 200 crores.

Sir Purshotamdas Thakurdas: Do you for this purpose, divide in water-tight compartments what is available for commercial banking and what is available for agricultural banking?

Dr. Jeidels: There is a certain overlapping.

Sir Purshotamdas Thakurdas: We are concerned with the main question whether for further expansion of banking facilities of a kind which is generally approved you can tap more capital or not; whether more capital can be tapped for agricultural banking, or commercial banking or for purposes of Government bonds, it is more capital available to the country at large.

Dr. Jeidels: If it is not available for banks, then it is also not available for bank loans. The 40 crores of the Co-operative movement are available only for special loans, for a certain kind of needs of the country.

Sir Purshotamdas Thakurdas: If that movement were not started and had not made the enormous strides during the last 10 years, that would have meant more demand on the capital available for commercial banking. For practical purposes we are concerned with the total banking capital available in the country.

Dr. Jeidels: In making the full survey of available banking capital, you ought to mark this as a special class, because it is only available for a special class of loans. In every county you have to add savings deposits, to those amounts available for doing banking business. In my country, for instance, only about 60 per cent. of the entire deposits are available for banking, the rest are savings or co-operative deposits which find their use outside of banking.

Sir Purshotamdas Thakurdas: Have you considered as to what happened before the co-operative movement was started? Did it not make a greater demand on your commercial banks?

Dr. Trip: The money came from moneylenders.

Dr. Jeidels: In studying this problem, one has always to keep in mind, that whatever proportion of these deposits with the co-operative movement is withdrawn, reduces agricultural credit. It is not replaced by bank loans but the borrower has to take refuge with the moneylender. Even if you do not follow me in treating these deposits as a separate item, there is no harm in neglecting them in a survey of banking possibilities, because the amount is small, almost negligible in this connection.

Sir Purshotamdas Thakurdas: The point of view which Mr. Khaitan put before you does not change your reasoning as you have given it?

Dr. Jeidels: No.

Sir Purshotamdas Thakurdas: Even the fall in the price as indicated by the index numbers and the appreciation in the value of the rupee do not modify your reasoning?

Dr. Jeidels: Not essentially.

Sir Purshotamdas Thakurdas: In spite of these new factors and crores of more capital, you think that in the last 10 years there has been no change so far as the total banking facility in the country is concerned?

Dr. Jeidels: I have been corrected yesterday in regard to the meaning of the figures and have changed my opinion correspondingly; 70 crores of to-day are not 70 crores of the past. I now say there has been fair progress in bank deposits.

Sir Purshotamdas Thakurdas: Do you think that progress is due to more banks being opened, especially co-operative, Imperial Bank, etc.

Dr. Jeidels: In these 10 years the country has progressed in education and otherwise; I think it is a satisfactory development.

Sir Purshotamdas Thakurdas: And the only change has been 100 more banks by the Imperial Bank and comparatively nothing except the extension of co-operation.

Dr. Jeidels: It seems to me, that the resources available and the banking instruments to handle them have more or less equally improved.

Mr. D. P. Khaitan: When Sir Purshotamdas put to you the figures about co-operative banks, you thought the monies which went into co-operative banks might not have gone to the commercial banks.

Dr. Jeidels: The loans would not have been given by commercial banks.

Mr. Khaitan: I am not talking of loans; I am talking of deposits. The deposits that have gone to the co-operative banks might not have gone to the commercial banks?

Dr. Jeidels: At least partly not.

Mr. Khaitan: Did you notice the distinction between the figures given by Sir Purshotamdas and the figures you were relying on. Sir Purshotamdas gave you the figure of just over 23 crores, and he took care to exclude the deposits in the rural credit societies. So far as the rural credit societies are concerned, it may to some extent be said that the deposits might have come from the agricultural classes. But the provincial and central banks figures which he gave you are situated in big cities.

Dr. Jeidels: They are mostly members' deposits.

Mr. Ramdas Pantulu: Members' deposits are much fewer than non-members' deposits.

Mr. Khaitan: Non-agricultural credit societies are excluded.

Dr. Jeidels: Mr. Ayangar will be able to tell us—he has compiled a summary—the amounts of deposits, without duplications, of the co-operative movement.

Mr. Ramdas Pantulu: I have got the figures and I will give you after lunch.

Dr. Jeidels: Is my assumption correct—which I drew from those figures that the co-operative movement collects about 50 crores of deposits in the country?

Chairman: Mr. Ayangar will give you the figures after lunch.

Mr. Lamond: I wish to say that with regard to the opening of branches Lala Harkishan Lal's bank, the Peoples Bank of Northern India, have opened 65 branches.

Dr. Jeidels: My congratulations.

Chairman: My observation, Dr. Jeidels, is for all the experts. I am referring to the 3 main questions under commercial banking. The first question is. Are the banking facilities sufficiently extended? I understand that that refers to facilities relating to commercial banks. I confess I do not quite realise what the answer of the experts is to that question. Is the answer of the experts that banking facilities are sufficiently extended. I have gone through the portion of this memorandum and listened to various discussions and it may be lack of intelligence on my part, but I should like to have a straight answer to a straight question. Is it the opinion of the experts that banking facilities in regard to commercial banks is sufficiently extended in India?

Lala Harkishan Lal: I suggest that the question be put now and the answer taken later.

Chairman: I am quite willing to put the question and to wait for the answer in the afternoon. I must say this, I am not providing any pitfalls for the experts.

Dr. Jeidels: I have offered some observations, which may help to form an opinion. I never expected that a question, whether banking facilities of a country are sufficient, a question which has to be put for the purpose of the enquiry can be answered with a clear yes or no. I offer those observations in view of those answers which the Committee has heard and on the material put before us.

Chairman: I understand your present remark to mean this. You have only discussed the question from a certain aspect, that is the growth in deposits. I have listened to various other observations which have to some extent weakened the basis of that examination. You admitted the force of what Mr. Khaitan said about prices. Mr. Lamond very pertinently mentioned the duplication of deposits in earlier years. I am gradually becoming doubtful as I read a certain observation made by an English expert, not a banker, but, I think, a Director of the Bank of England, which seemed to indicate that India does lack banking facilities. That was the genesis of this enquiry. If he had held the same view which is adumbrated in this paragraph that more facilities are not needed in the direction of commercial banking, perhaps this enquiry would have had a limited scope, and that is my real point in trying to pursue this problem. If you now say that you have not offered any opinion, but simply put before the Committee one line of thought, that is a different proposition.

Dr. Jeidels: It is not quite correct to say that we have not offered an opinion. We have offered an opinion, but not an answer with yes or no.

Chairman: If there is an opinion to give, I should like to have the opinion. Are the banking facilities sufficiently extended? May I take it that in the opinion of the experts banking facilities with regard to commercial banking in India are sufficiently extended? I am quite willing to have an answer later on.

Dr. Jeidels: They are not out of conformity with the economic development of the country.

Dr. Trip: With regard to commercial banking, we are of opinion that the banking facilities that exist in this country are more or less in conformity with the economic and financial development of this country.

Chairman: We have then to examine in relation to what we have heard in the past. I have given you the history of this thing. I could read out to you extensive passages from Sir Basil Blackett's speech, and I may say this, that as a result of his activities, I find that between the years 1919 and 1928 the number of places in India possessing commercial banks increased from 185 to 431 that is, more than double. I wanted these figures because it confirms the last argument which I was using yesterday that there are many places in India even now which do not possess a single commercial bank.

Dr. Jeidels: Excluding the indigenous banker?

Chairman: This excludes the indigenous bankers.

Chairman: Then, as regards the indigenous banker, we also know this, that except at certain principal stations they have not during this period been in the habit of receiving general deposits, *i.e.*, in the last 10 years it has not been the custom with many indigenous banks except at certain important centres and perhaps more widely in the Bombay Presidency to receive deposits. That is the deposits aspect of the case. Therefore, I have got my answer. The only other point I do not understand is this sentence: "At the same time the practice of the Imperial Bank to establish sub-stations in less important places ought to be encouraged". Now, does this refer to the branch banks?

Dr. Jeidels: Yes.

Chairman: That is the method of adding to the numbers of the branches of the Imperial Bank. If that is the considered opinion of the experts, why should not the opening of branches by other joint stock banks also be encouraged? Why should the process be confined to the Imperial Bank and that bank be given preferential treatment?

Dr. Jeidels: It means of course that it ought to be encouraged also for other joint stock banks.

Chairman: You may not be so fully familiar with the technicalities of expression in India. Stations is one thing, but I do not know what is meant by sub-stations.

Mr. Lamond: What we call pay offices.

Dr. Jeidels: Excuse me for speaking like an authority on the business of the Imperial Bank. Sub-station and pay office are not identical?

Mr. Lamond: We call them pay offices and out-stations.

Dr. Jeidels: I took the term "sub-station" from the Provincial Report of the Punjab; there it is called sub-station.

Lala Harkishen Lal: The Imperial Bank has got three names outside the branch—sub-agency, pay office and out-station. These are the three recognised names.

Chairman: Are you here referring to branches of the Imperial Bank or to those subordinate formations whatever their name may be.

Dr. Jeidels: I am referring to those stations which are a sort of predecessor to a branch; one begins with the sub-agency, or whatever the name may be, with the intention of developing it into a branch.

Chairman: Therefore, you do not really advocate the encouragement, even in the case of the Imperial Bank, of the establishment of new branches.

Dr. Jeidels: I do not think that can be inferred from what I said. I said that, where the establishment of a branch is not warranted by the expected amount of business, at least sub-branches, sub-agencies ought to be established if possible. If a place warrants a branch, so much the better, but if the alternative is put between a branch or no establishment at all, then I would suggest to establish some outpost, something which is not quite a branch but better than nothing. I was very glad to find such establishments principally in the northern part of India, and think it ought to be encouraged with all joint stock banks including the Imperial Bank.

Chairman: I now start with the proposition that it is the opinion of the foreign experts that for the present economic development the provision of facilities for commercial banking is sufficiently extended. I start with that proposition. If that is so, if the provision is already sufficiently extended—I may be wrong—I fail to understand why it is necessary to encourage these institutions.

Dr. Jeidels: Excuse me if I say that you have not stated our answer quite correctly. I repeat our answer: "The facilities are more or less in conformity with the present state of economic development in the country". Now, Mr. Chairman, it is very clear that neither you nor we would be satisfied that the economic development of the country should remain as it is. We expect of this country as we do of our own countries further economic progress. With further development there will be need for more banking facilities; more business, more banking. Therefore we recommend to assist economic development by more bank branches, even where a regular branch is not yet warranted by immediate business opportunities.

Chairman: I now understand it. This, if I may say so, is a very different proposition. It clears up the position completely.

Dr. Jeidels: May I ask you for five minutes. It is of course my desire to be as much at your disposal as possible in the limited time available. Even apart from the scarcity of time, it would serve the purpose of giving a full picture of the situation, if we could proceed somewhat quicker. I propose to facilitate it by repeating shortly what the memorandum wishes to say on commercial banking apart from what has had your attention so far. We can then proceed to the Chapter on Industrial Banking as quickly as possible, without neglecting those parts of commercial banking which have not yet been discussed. If you could see your way I would suggest that we start industrial banking this afternoon at 4 or 5 o'clock. This leaves us about an hour and a half to finish the Chapter on commercial banking with the exception of those problems which can be dealt with later. If you will allow me to give a short summary of the memorandum, it says that we have found commercial banking in India on the same lines as commercial banking in other countries, but it has some special features. Those special features are the large amounts invested in Government bonds and a somewhat crude form of security for loans. After this simple description of commercial banking I suggest a few lines of improvement, some

sort of information service, comment on the legal situation and all those matters, on which in other countries organisation has had the effect of facilitating modern banking. Then I put the question which is a starting point with every investigation of commercial banking in a country: are banking facilities more or less corresponding to the state of economic development, are they for the present more or less sufficient. As second question I ask: which place do the various existing banking agencies, which one may call commercial banks occupy at present and are likely to occupy in future? I deal shortly with the special position of the Imperial Bank, with the special position of the joint stock banks, with the special position of the indigenous banker. With few words I mention the co operative movement, as it overlaps to an extent into regular banking. The investigation has resulted in a tribute paid to the Imperial Bank, whose fine development ought to be encouraged, because this largest Indian bank is capable of strengthening confidence in Indian banking and hereby paves the way for the other joint stock banks. With regard to the so called Indian joint stock banks I advocate the formation of a Joint Stock Bankers' Association on the pattern of other countries, with the purpose to establish a sort of common standard inside of the profession and to present the interests of the profession in relation to other banking institutions, to the future Reserve Bank and to Government. I suggest the same for the indigenous banker in order to build up a system of co-operation inside of the profession and to defend their position in the economic world; they should form one or more Indigenous Bankers' Associations. I recommend that the co-operative societies should not be considered by the other banks mainly from the point of view to competition; I do not wish to enlarge on the subject, as you will have the benefit of special expert advice on the co-operative movement, but I plead for sympathetic treatment by the rest of the banking world. It is one of the finest movements, which this country has, and it ought to find sympathy even where it does a little competitive damage to other institutions.

Then, gentlemen, I asked a third question: is the confidence in banks sufficiently secured? This is the problem of avoiding bank failures, of keeping a high standard. A high standard can be encouraged by setting up a fine pattern; I find that some joint stock banks and the Imperial Bank deserve to be initiated by new and by the small joint stock banks. You know however that there are in this country a number very small joint stock banks, and it calls for careful investigation whether regulations are required and can be recommended to provide against practices in banking which might impair public confidence in banking. I draw your attention to our general remarks on the subject of regulation. They contain a warning not to overdo regulation so as to interfere with free development of banking facilities. The memorandum dealt with some more important proposals on the subject, which we found in the evidence.

Finally, I drew attention to a certain form in which a joint stock bank can be established in another country, my own, combining personal liability with joint stock banking; I have brought this forward particularly with regard to the indigenous banker, offering my goods as the small tradesman in India does who invites you to look; you do not have to buy.

I shall now be glad to answer questions of detail. It can do no harm now, when I have tried to give the larger aspect. We experts lay stress upon giving the full picture, not the arm or leg, but the full portrait; a

portrait, as we hope of a beautiful woman. This is why I asked for your patience and your permission to interrupt the discussion for some minutes.

Chairman: I shall now discuss the matter with my colleagues here.

Dr. Jeidels: May I make a suggestion? If you devote this entire afternoon to the subjects which I have just put before you; if you then take Saturday, Monday and Tuesday for Industrial Banking, one more full day and one morning would be available for me; I leave it to you whether you wish to hear my opinion on Exchange Banks on Wednesday and give me the possibility of saying some words and offering a few suggestions on the general problem on Thursday morning.

Chairman: This afternoon we will continue commercial banking, and I would implore my colleagues to confine their questions to having the picture completed; nothing more.

Chairman proposed a discussion on the subject of previous sanction to the opening of a new bank. Dr. Trip said that Mr. Cassels would be submitting a paper on banking laws in Canada, and that the discussion might be had in connection with that over banking regulations. Lala Harkishen Lal had no objection to this, and he added that he agreed with what Dr. Jeidels stated in his memorandum.

Mr. Manu Subedar raised the question whether, if no member put any questions, it implied that he agreed with the statements made in the memorandum. The Chairman replied in the negative.

Chairman: Could you tell us anything about your ideas about the 'radical changes' you refer to in your memorandum.

Dr. Jeidels: I had in mind what has been suggested by the Joint Committee of the Assembly on the Reserve Bank Bill.

Chairman: You have recommended the creation of a Joint Stock Bankers' Association. I take it that you have seen Mr. McDonald's evidence in this connection, and that you do not specifically contemplate the Association recommended by you to include the Imperial Bank.

Dr. Jeidels: I would probably not include it. But it is a practical question; I did not consider the point.

Lala Harkishen Lal: It would be useful if the Imperial Bank came in.

Chairman: Supposing the Imperial Bank does not want to come in.

Lala Harkishen Lal: We shall not be able to form the Association.

Dr. Jeidels: Some persuasion may bring them in.

Chairman: 'It will be helpful to safeguard the members' interests when the Reserve Bank will establish a policy of classification among those banks with which it intends to do business'. You apparently contemplate introduction into India of an arrangement similar to the one in vogue in Holland. In that case there should be some restriction on new banks or even on existing banks. The Reserve Bank may decide not to do business with a particular bank, old or new.

Dr. Jeidels: Yes. Even if not attached to the law on the Reserve Bank there will always be a schedule of banks in practice.

Chairman: You say—

> "A valuable pattern is supplied by the Bankers' Guilds in China which organise and educate their own members and keep in

touch with other groups. Some material is available with the experts".

Could you in any form make that available to us?

Dr. Jeidels: I received it confidentially and would not like it printed; I have no objection to members reading it.

Chairman: In the last sentence you make a specific recommendation: "No obstacles should be put in the way of mergers between smaller joint stock banks by stamp duties or taxation, and if such obstacles exist they should be removed".

That is your recommendation, and it is very interesting. We have already evolved something on the same lines.

Dr. Jeidels: I have not gone into the question whether there are any obstacles in this country. But I know in other countries there are many unintentional obstacles. If for instance two banks with a capital of Rs. 10 lakhs each want to merge, they have already paid the company tax and there is no reason why Government should tax them again if one of the banks has to raise its capital to take over the other. In my own country we had great difficulty to obtain an arrangement that only tax on half of the new capital is to be paid. It would be fair to eliminate any such taxation arising exclusively from such transaction.

Chairman: Next we come to the indigenous banker. Dr. Hyder drew your attention to some other aspect of the question. Are you in a position to give expression to your views or do you think we had better take it up at a later stage?

Dr. Jeidels: I would recommend that this matter be dealt with separately; I would suggest that a special day be given for discussing it with my colleagues, particularly with Dr. Trip who has given the matter much attention.

How to create an Indigenous Bankers' Association is a question of procedure; it may be discussed with a few indigenous bankers. In any case, there ought to be such Association in order to foster co-operation between indigenous bankers themselves and of the indigenous bankers with other of banks.

Chairman: Apart from that additional recommendation, you have nothing to say at the present moment with regard to the proposal of the Marwari Chamber. You would leave the subject to be dealt with later on with Dr. Trip.

Dr. Hyder: In this connection, Dr. Jeidels has in the last paragraph of his memorandum thrown out a suggestion.

Dr. Jeidels: You can perhaps consider this also in a special discussion on the Indigenous Banks.

Dr. Hyder: What are those new factors which have brought this form of organisation into being?

Dr. Jeidels: The smaller capital of German banks, when they had to re-establish their capital after inflation. It is not a very simple form and has the disadvantage that it is more difficult to remove the manager. But this may just prove to be an attraction for the indigenous banker. He would be the responsible manager for his partners, the shareholders of the joint stock bank.

Mr. Khaitan: Supposing there is a firm with 20 lakhs He has got a banking department which is called the indigenous bank and he also carries on a trading department. The complaint is that the banking department is mixed up with his trading department and he does not disclose his accounts and people do not know what it is. At the same time he has the reputation of having 20 lakhs. He can convert his banking department with a capital of 5 lakhs and thus manage as a joint stock concern. But as a joint stock concern with 5 lakhs people would not have sufficient confidence in it. So he becomes a partner and he gives the joint stock concern his unlimited liability without disclosing his trade affairs and fully disclosing his banking affairs. The joint stock concern will not undertake trading. But what you may call a part with unlimited liability may carry on trading in his other department. That is the idea.

Dr. Jeidels: Yes.

Mr. Shanmukham Chetty: If at any time the liability exceeds the assets, and he becomes an insolvent, has the banking department a prior claim on his assets?

Dr. Jeidels: No. He is only responsible if something happens to the bank—if the joint stock bank fails.

Mr. Khaitan: He is liable as a partner.

Dr. Jeidels: He is liable for the debts of the bank. He is not liable for the share capital. If he fails, the Board of Directors of the Joint Stock Bank would recall him and appoint another manager who is also personally responsible and has to be confirmed by a shareholders meeting.

Chairman: So the bank will not have to be wound up?

Dr. Jeidels: He is fully entitled to go bankrupt, without entailing the Bank.

Lala Harkishen Lal: This idea is already present in our Company law. A company might be partly a guaranteeing company and partly shares, or it may be a purely guaranteeing company or it may be a purely share company. The idea is there. We shall not require any legislation.

Dr. Jeidels: I am not a lawyer and have not gone into the legal question for India. If you find it interesting from the point of view of the indigenous banker, you ought to consult a lawyer.

Chairman: As a matter of fact, one of the provincial Banking Enquiry Committees—the Bihar and Orissa Committee—has also recommended some such proposal.

Sir Hugh Cocke: The proposed Association of indigenous bankers will be a purely voluntary association?

Dr. Jeidels: Entirely voluntary, by and by it will of course become a matter of reputation to belong to it.

Sir Hugh Cocke: Would that be the same which would control the licenses we talked about the other day?

Dr. Jeidels: I have nothing in mind of that kind.

Chairman: Dr. Jeidels himself is not in favour of a license. Therefore he could not answer that question.

Sir Hugh Cocke: I thought he said "Yes" yesterday.

Dr. Jeidels: Such an Association may also select Auditors; it could make up a list of approved Auditors, not approved by Government but approved by such a prominent Association. Their list would not be compulsory and have no legal powers.

Sir Hugh Cocke: You said you would not license. On the other hand I think you said that you would welcome the indigenous banker agreeing to be bound by certain formalities. It would give him an added status.

Dr. Jeidels: One of the first actions of the Indigenous Bankers' Association will be to study this question. They may come to the result that it is sufficient for the future standing of the banker, if it is known that he is a member of the Association.

Sir Hugh Cocke: My idea was that this license would carry some extra status just like an Accountant who has a Government Accountancy Diploma carries extra status.

Dr. Jeidels: If he is a member of the Association of Indigenous Bankers, this would give him the status.

Chairman: You will probably help him in being brought into the Schedule of the Reserve Bank?

Dr. Jeidels: I think so.

Chairman: Coming to the last part of item (2) where you deal with Co-operative Credit institutions, you say that a well-known German Bank 25 years ago established itself in a special department which is quite profitable as an apex bank to one of the two large co-operative institutions of the country and that a publication by the Dresdner Bank is available. Will you give us some information on that? I gather your idea is that the Reserve Bank, when it comes into force, will function as the apex bank of all the provincial apex banks. Your idea might perhaps be introduced in the case of these provincial apex institutions. Instead of there being a provincial apex bank, in a province like the United Provinces where there is not one already, one of the joint stock banks might take over that function. That would be an appropriate thing. I do not want to discuss the matter. I simply wanted information.

Dr. Jeidels: Dr. Friederich can give all information about this German Bank. Unfortunately it is available only in German language. I mentioned it principally as encouragement to the Imperial Bank. It is worth looking into the matter.

Chairman (to Dr. Friederich): Is it possible for you to let us have a short note showing what has happened there?

Dr. Friederich: We have in Germany two apex banks. One apex bank is what we call the Prussian central co-operative bank. This deals with the agricultural co-operative system. The other apex bank to which my colleague has referred is only for the urban co-operative system.

Chairman: You will bring that in your memorandum.

Dr. Hyder: We have had some trouble between commercial bankers and co-operative bankers regarding the sphere of operations.

Dr. Jeidels: Dr. Friederich will be able to tell you about it; I share his views.

Dr. Friederich: I wish to reserve my opinion.

Sir Hugh Cocke: I asked this morning about encouraging deposits in centres which banks have not reached and are not likely to reach for a

long time. I wanted to know whether the Post Office was a possible medium. I asked whether that was done in any country in Europe and I did not get an answer. Is Post Office banking used in any country in Europe?

Dr. Trip: In Holland we have the postal cheque. It is a very well developed system for paying bills. Every shop keeper practically has a number of them. You can pay all your bills to the shop keepers in that way.

Sir Hugh Cocke: In other words, you have a banking account with the Post Office which you can operate upon?

Dr. Trip: Yes.

Dr. Jeidels: Germany, Belgium, Denmark, France, Italy, Czechoslovakia, Latavia, Netherlands, Austria, Sweden, Switzerland, and others have got this system.

Sir Hugh Cocke: In spite of all that, you do not recommend that for India?

Dr. Jeidels: I would like not to express a definite opinion. I do not want to create any impediment to the ambition of joint stock banks to open branches. I do not consider myself sufficiently competent in the matter. It seems in any case interesting and deserves further investigation. My personal opinion on it is really not valuable.

Chairman: Lala Harkishen Lal will call your opinion most valuable No doubt we have got your opinion.

Dr Jeidels: One has opinions for which one fights and such for which one does not; this one I will not defend.

Mr. Rushforth: You say in paragraph 2 that the Government balances should remain concentrated with the Imperial Bank. Do you make that statement with reference to the suggestions made by various witnesses?

Dr. Jeidels: I made that statement because a number of witnesses have advocated that other banks should be strengthened by holding Government balances.

Mr. Rushforth: I do not know whether the suggestion is entirely with a view to strengthening all the banks. In places where there is no Imperial Bank, Government might use the local Bank and deposit their balance there?

Dr. Jeidels: I intended to express myself against it.

Chairman: Let us look at a station where there is no Imperial Bank. Would you object to the Government balance being placed in another joint stock bank or its branch if one exists there?

Dr. Jeidels: I would not be greatly in favour of it.

Chairman: In such a place you would prefer the Government balance being kept in a treasury instead of being transferred to the existing branch of a joint stock bank?

Mr. Lamond: May I give some information? In places where the Government have their own treasuries, the balances maintained in the treasuries are very small, and it would not be a working banking proposition. The total of Government balances throughout the whole of India is very small.

Chairman: Depositing balances with selected banks gives them a certain minimum balance. The advantage to the joint stock bank in that case would be that it gives a certain status to it in the eyes of the public.

Dr. Jeidels: If Government selects 10 out of 60 banks and refuses to deposit with the others because it does not feel sufficiently safe, it hits these banks very hard as Government's attitude, though justified, involves an open criticism. It would give rise to a many disputes.

Chairman: There are two branch banks (there may be more) at any particular station where there is no branch of the Imperial Bank and it may lead to an invidious distinction.

Dr. Jeidels: I think so.

Chairman: But when the Reserve Bank came into existence, it would, broadly speaking, take over and administer all the balance with Government. Would you not make a distinction in the matter of the Reserve Bank?

Dr. Jeidels: It is not so difficult with the Reserve Bank, which has no branches and will have to establish a geographical policy. Dr. Trip may have something to say to it. I do not know exactly, how it should be handled, but I would not definitely exclude them. It is a matter for consideration.

Chairman: You would not exclude the idea of the Reserve Bank using its discretion and making use of an existing branch bank, not of the Imperial Bank, as its agent for dealing with the Government balances?

Dr. Jeidels: Perhaps not from the start, but when the Reserve Bank has gained some years' experience, the question may be considered. In the beginning the Reserve Bank would be in the same position as Government. In the memo. I have said that the Reserve Bank will have a good insight in the suitable geographical distribution of banking facilities, and it should be able to exercise some influence in this direction.

Chairman: Dr. Trip, do you want to add anything to what Dr. Jeidels has stated?

Dr. Trip: In my opinion, if I am not mistaken, in the construction of the Reserve Bank, they would have only a very small number of branches and they would make use of the branches of the Imperial Bank at other places. If they want to spread influence over the country, they must be allowed to make use of the branches of other banks in those places where the Imperial Bank has no branch. That is conceivable, but generally speaking it would not be very profitable to the bank, because the policy of Government will be and must be in my opinion to concentrate as quickly as possible all the money they are exacting and so I do not think it can have the character of depositing money with those banks.

Dr. Jeidels: In regard to Sir Hugh Cocke's question on postal cheque business, I can now give the number of accounts of a few countries:—

Netherlands	140,000	Single accounts.	
Germany	1,000,000	,,	,,
France	400,000	,,	,,
Italy	40,000	,,	,,
Austria (a very small country)	124,000	,,	,,
Japan	240,000	,,	
Czecho-Slovakia	100,000	,,	
Switzerland	73,000	,,	,,

Mr. Manu Subedar: Have you business units in Germany and how many?

Dr. Jeidels: The figure means single individuals holding accounts, most of them are private persons.

Mr. Manu Subedar: What will be the number of business units? Business units are persons doing trade or industry or keeping shops.

Dr. Jeidels: There are 3½ million business units in Germany.

Mr. MacDougal: Two or three years ago some enquiries were made into the Birmingham Municipal banking and small accounts of this description in the municipal banks were very successful.

Lala Harkishen Lal: With regard to banking patronage, so far as cash balances are concerned, I might say that the word 'Government' should be defined. If it means only revenue, it is a small matter, but there are other deposits which emanate from a Government authority, *e.g.*, from the Court of Wards, minors' accounts, etc., where sometimes the guardian is directed to put money into a certain bank. In the same way the accounts of small municipalities, notified areas, military accounts, etc., do not always remain with the Imperial Bank. If all these accounts are to go to Government, it would be harmful and would be a retrograde step from the present practice.

Chairman: Dr. Jeidels has only in view what is commonly known as treasury balances.

Dr. Jeidels: I only meant treasury balances.

Mr. Ramdas Pantulu: You say that "the competition of the co-operative movement with ordinary banking as well as with Indigenous bankers is not liable to create much sympathy for the movement just in banking circles and particularly so where the co-operative credit organisations appeal also to outside depositors who are not members". I do not want to dispute what you say, but I would like you to look at the co-operative statistics furnished to you and the portion of it relating to rates of interest. Do you not think that the co-operative banks in this country are not offering very competitive rates?

Dr. Jeidels: I think so.

Mr. Ramdas Pantulu: You think our rates are not bad?

Dr. Jeidels: I think they are fair.

Ch. Mukhtar Singh: Suppose we decided that there was necessity for opening more branches in the interior. You say that much business is not likely to come and therefore naturally there would be some loss to those branches. There might not be sufficient business. Government at present give their balances to the Imperial Bank and take an undertaking from them that they will open, say, 100 branches in a certain period. In the same way, could not Government give some more facilities to joint stock banks?

Dr. Jeidels: I answered that; I would not recommend Government interference in this way.

Ch. Mukhtar Singh: Even if we, as a Committee, found that there was necessity for opening more branches, you would not agree to it?

Dr. Jeidels: I have only one single opinion on every subject.

Ch. Mukhtar Singh: I take it that it can never be changed?

Dr. Jeidels: Every opinion which I express is only under prevailing conditions.

Ch. Mukhtar Singh: You feel that there is necessity for opening more branches. Suppose we act on that assumption?

Dr. Jeidels: My opinion stands as long as those conditions exist which I have found during my short stay in this country.

Chairman: Dr. Jeidels has given his opinion on both points. If you do not accept his opinion on one point and come to a different conclusion, it is open to you to come to a different conclusion on the second point also.

Mr. Devadhar: From your observations with regard to the co-operative movement, it seems that there was a stage in the evolution of the movement in your country when its progress was probably not very much liked by commercial banks.

Dr. Jeidels: It is still so.

Mr. Devadhar: I can tell you from the observations of several witnesses who came before us representing commercial banks that they have expressed full sympathy with the progress of the co-operative movement. Would you please tell me why an institution like the Imperial Bank should not feel that measure of sympathy which you have expressed towards the movement?

Chairman: I think Dr. Jeidels has given his opinion definitely.

Mr. Devadhar: The Imperial Bank belongs to a class of commercial banks. Is there any particular reason for the Imperial Bank to lessen its sympathy from this point of view?

Chairman: Surely it is not fair to put this question. How can Dr. Jeidels say why they are not doing it?

Mr. Devadhar: Have you heard of any particular reason why the Imperial Bank are not adopting the attitude which you want it to adopt?

Dr. Jeidels: It is not so out of the way, because one expects generally that co-operative societies are institutions for their members and if they take deposits from non-members, they begin to compete; the competitor might argue that co-operative societies should stick to their natural business with members and leave the banks' customers alone. One has to appreciate this argument.

Chairman: But appreciating all that, it is your personal opinion?

Dr. Jeidels: I expressed my sympathy with the co-operative movement, even if it competes.

Mr. Manu Subedar: You say that "the competitive position of the Imperial Bank, the Exchange Banks, the Indian joint stock banks and the indigenous banker does in my opinion not call for outside interference". What have you in mind when you refer to outside interference?

Dr. Jeidels: The Banking Committee may wish to regulate.

Mr. Manu Subedar: Would you like the Banking Committee to be wound up at this stage?

Dr. Jeidels: No, I think it ought not to interfere in the relative position of the various commercial banks, not between the Imperial Bank and the other joint stock banks; I would not recommend it.

Mr. Manu Subedar: Would you like it then to be left to the free law of competition?

Dr. Jeidels: For the present, for some time to come.

Mr. Manu Subedar: For how long?

Dr. Jeidels: Competition as free competition is useful in the majority of cases; but I do not think that every business competition is sound. When business is still in a stage where it should expand, I think free competition is perhaps the best regulator.

Mr. Manu Subedar: Of course, as you said before, if a banking institution is doing proper service, whether it is Indian or foreign should not matter from the point of view of the country. I know your view. Even if we found that this free competition was working to the prejudice of the Indian institution, would you let the Indian institution go out of existence?

Dr. Jeidels: It will not go out.

Mr. Manu Subedar: I am very glad you think they are strong enough to hold their own.

Dr. Jeidels: They will.

Mr. Manu Subedar: But assuming that they were being weakened?

Dr. Jeidels: I am convinced that competition benefits all parties.

Mr. Manu Subedar: Is it good for a man even when he is being stranded?

Dr. Jeidels: He will hold his own. What I had mostly in mind was the competition between the Imperial bank and joint stock banks.

Mr. Manu Subedar: Here you are referring to the whole competition.

Dr. Jeidels: I refer to all, but this is the most acute one.

Mr. Manu Subedar: I am not referring to the competition between the Imperial Bank and the joint stock banks, but to the competition between the foreign exchange banks and the Indian joint stock banks. Do you think that it is good for the Indian joint stock banks to go out of existence?

Dr. Jeidels: I am convinced that in free competition they will not go down but improve.

Mr. Manu Subedar: But if they did not improve?

Dr. Jeidels: Then it would show that I started on a wrong opinion and drew from the wrong opinion a wrong conclusion. I cannot imagine what harm free competition, as I advocate it, could do. I may have a different opinion in ten years from now. Our competition in Germany is immensely more keen than all competition which you have between the various classes of banks in this country.

Mr. Manu Subedar: You have no phenomenon of a German institution competing with foreign institutions; therefore there is no parallel between your case and our case.

Dr. Jeidels: They are equal in so far as one banker may lose customers.

Mr. Manu Subedar: If one German institution goes down, another German institution would spring up, but here if one Indian bank goes down, it is another foreign bank that would spring up. I put it to you

therefore that the phenomenon is not parallel. In the special circumstances of this country there are powerful foreign banks and less powerful Indian banks competing with one another. Would you still advocate competition?

Dr. Jeidels: With commercial banks the competition to which I alluded is a much more dangerous competition.

Mr. Manu Subedar: We call that internal competition. We will settle our internal affairs as best as we can. I am referring to what appears to be the more outstanding problem which has got to be settled and even with regard to that problem your considered view is 'no interference'.

Dr. Jeidels: Yes.

Mr. Manu Subedar: Even if it results in disaster to the Indian institution?

Dr. Jeidels: It will not in my opinion end in disaster for the Indian institution.

Mr. Manu Subedar: With regard to the position of the Imperial Bank, the relative advantages about finance and the cost they have to meet for the various services, have you gone into an estimate of these?

Dr. Jeidels: I have estimated, but I have not calculated it. I have a well founded opinion.

Mr. Manu Subedar: How do you mean, well founded?

Dr. Jeidels: I have enquired into what the Government service means. Such matters are often discussed in my country.

Mr. Manu Subedar: If you have enquired into the costs, the Committee would find it very valuable for their enquiry.

Dr. Jeidels: I have not enquired into the costs. I suppose that if I do so the Imperial Bank would call for the police.

Mr. Manu Subedar: Therefore, it is merely an impression?

Dr. Jeidels: It is a well founded impression.

Mr. Manu Subedar: In the next paragraph you are suggesting that the Imperial Bank should expand to cultivating sound methods of industrial finance rather than the foreign Exchange banks should do so.

Dr. Jeidels: When I began to study the matter before I took it up officially, I had in mind that the Imperial Bank should take up foreign exchange business, but I now think it might interfere with the development of the Bank's up country organisation. It may not be good to let the bank develop too much new business at a time; I have therefore arrived at the opinion, that it is better if they do not enter this field now.

Mr. Manu Subedar: Better for whom?

Dr. Jeidels: For the country.

Mr. Manu Subedar: That is, the Imperial Bank should not do foreign exchange business?

Dr. Jeidels: Yes.

Mr. Manu Subedar: I know that it has been represented to us that it is very difficult for an Indian institution to get into the foreign exchange business.

Dr. Jeidels: It is difficult for every one, with the keen competition prevailing.

Mr. Manu Subedar: Our discussion would be much curtailed if you gave me specific replies. Have you considered that it is very difficult for an Indian institution to get into the foreign exchange business?

Dr. Jeidels: I would say that it is easy, because it would probably have the sympathy of the Indian customer.

Mr. Manu Subedar: You consider it very easy for an Indian institution to get into the foreign exchange business?

Dr. Jeidels: If it is strong enough, because foreign exchange business requires a considerable capital. I do not think that it is particularly difficult for an Indian bank to enter foreign exchange business. The Indian customer may prefer an Indian bank for it. Besides the Imperial Bank has a sufficiently large staff.

Mr. Manu Subedar: Such an Indian bank would want more than one foreign banking connection.

Dr. Jeidels: It is not necessary.

Mr. Manu Subedar: Any Indian institution including the Imperial Bank would have to look after foreign connections.

Dr. Jeidels: It would certainly not be necessary to open foreign branches.

Mr. Manu Subedar: Would an Indian institution get its bills rediscounted in London?

Dr. Jeidels: Yes.

Mr. Manu Subedar: Are you aware that an Indian institution tried to do this and was repulsed from this business?

Dr. Jeidels: The case is not known to me.

Mr. Manu Subedar: There will be no tendency, as in Holland, not to rediscount bills to banks other than their own nationals?

Dr. Trip: That is not the tendency. Only the Netherlands Reserve Bank wants to make sure that the foreign bank complies with the Netherlands law. Whether it is a Dutch bank or a foreign bank, they want to have them established.

Mr. Manu Subedar: There is no prohibition to my holding any number of shares in a Dutch Co., or bank?

Dr. Trip: No, not from the legal point of view.

Mr. Manu Subedar: You think there are no other difficulties in the way of an Indian institution?

Dr. Jeidels: No.

Mr. Manu Subedar: You have not heard of the difficulties of Indian banks in doing foreign exchange?

Dr. Jeidels: No.

Mr. Manu Subedar: Since you have not heard of them, your conclusions are what they are.

Dr. Jeidels: If I had to establish connections in a foreign place for the Imperial Bank I would no doubt succeed.

Mr. Manu Subedar: Would you succeed in opening with regard to an Indian joint stock bank?

Dr. Jeidels: If it has good reputation and good standing I would, but only in that case.

Mr. Manu Subedar: It would not be proper to discuss a particular institution. You know there are 4 or 5 joint stock banks here which are more or less in the same position.

Dr. Jeidels: They would in any case have to try this class of business slowly, and slowly, I am convinced, they would be able to develop it.

Mr. Manu Subedar: Because you see it would be good for them to go slowly and having gone slowly they would succeed in the development of business, therefore your suggestion is that the Imperial Bank should not go, into it but the field of industrial finance.

Dr. Jeidels: I have offered my opinion on it. I have tried to weigh both. Industrial banking appeals to me more and I think industrial banking opens many possibilities for profitable business, while foreign exchange business may be unprofitable.

Chairman: Mr. Manu Subedar's question at least brings to my notice one point and I should like to have a definite statement from you in regard to it. Is it your opinion that in preference to its starting foreign exchange banking on the establishment of a Reserve Bank it should take to industrial banking or industrial finance.

Dr. Jeidels: Of course as soon as there is a Reserve Bank the Imperial Bank should start foreign exchange business. It is now only the question whether we should recommend the removal of this restriction even before the Reserve Bank comes into existence.

Mr. Khaitan: Would you kindly let us know how the establishment would make the change.

Dr. Jeidels: The Imperial Bank loses two kinds of business, but retains the entire staff. The two kinds of business which it loses is Government business and the function as Bankers' Bank. Having a large and expensive establishment, they would have to make use of this organisation.

Mr. Khaitan: Therefore, *minus* those two resources, the Imperial Bank would be in a stronger position?

Dr. Jeidels: I do not speak of resources, I spoke of business. I take it as granted that the loss of those deposits is not essential for the Imperial Bank; I may be mistaken but it is my opinion. It loses actual business and retains its staff. It reminds me of a merchant who has been dealing in cotton and wool and gives up wool business; he has a large staff and will therefore try to replace it by something else.

Mr. Khaitan: We shall revert to it in a minute. Before we proceed further, may I ask whether you are prepared to concede that if there is an Indian joint stock bank with large resources you would recommend that to take up exchange business slowly and gradually?

Dr. Jeidels: Yes, if it pays. It depends on the nature of their business.

Mr. Khaitan: I believe you said a few minutes ago that an Indian joint stock bank in order to do exchange business must have large resources to carry confidence in foreign countries and to compete with the existing exchange banks in India?

Dr. Jeidels: Yes, it should be one of the largest banks.

Mr. Khaitan: We may say it is the largest bank, and if the largest bank tries it would have better success?

Dr. Jeidels: If the leading institution sets up the pattern, it may be imitated successfully. It would introduce this class of banks in foreign markets.

Mr. Khaitan: Is it your impression that the exchange banks doing business in India at present are losing or making money?

Dr. Jeidels: If I wanted to investigate it, I would become acquainted with one more policeman. I do not know the rates.

Mr. Khaitan: Mr. Buckley has admitted they are making profit.

Mr. Manu Subedar: If I put it to you that the Managaing Governor of the Imperial Bank made it plain that exchange business was profitable, what would you say?

Dr. Jeidels: I want to wait until you show me the reference. (Reference was handed to Dr. Jeidels).

Chairman: This is more relevant in connection with foreign exchange. You may be able to give your answer tomorrow.

Mr. Manu Subedar: Would you draw any inference from the fact that instead of 6 banks before the war, there are 17 foreign banks working here?

Mr. Buckley: May I correct you, Mr. Subedar, the prewar number was 12 and not 6.

Dr. Jeidels: The principal reason seems to me that in those countries many importers and exporters doing business with India are either already customers of those banks who wished to open in India or could be acquired as customers if the bank specialised in Indian foreign trade finance. Another reason may be that the business is considered profitable.

Mr. Manu Subedar: We are placing importance on it because it is the opinion of the entire foreign delegation you are voicing.

Dr. Trip: So far it was the boom period.

Mr. Manu Subedar: Then you think it is better for the Imperial Bank to enter the industrial field rather than exchange business and that if an Indian joint stock bank wanted to enter the field of exchange business, there is no difficulty?

Dr. Jeidels: If it is strong enough.

Mr. Manu Subedar: You would not now say that it was not profitable business.

Dr. Jeidels: I doubt whether it is profitable. This statement here was made on the 5th January 1926—5 years ago. I suppose it was profitable, but I do not know it.

Mr. Manu Subedar: Then you mean that in these five years it has ceased to be profitable?

Dr. Jeidels: It has become less profitable.

Sir Purshotamdas Thakurdas: You expect us to make a recommendation regarding this not on the conditions as they exist in the year of grace 1931 and in the month of January or the last six months or one year but on the average of the last 10, 20 or 30 years. Before you say it is unprofitable, it is up to you to say whether on the whole in India in the average year exchange business has been profitable or unprofitable. I do not think you are justified in dealing with it in the manner you choose to. Here is the Managing Governor of the Imperial Bank who has said that it is quite profitable. Have you enquired whether exchange business in the last 40 years has been profitable or not? We expect a guidance from you on lines which are generally accepted. We have got to make a report for the next 20 or 30 years.

Dr. Jeidels: I have been drawn into this discussion on the profits of foreign exchange business; I really do not know how it started. I have discussed in this memorandum whether we ought to recommend now that the Imperial Bank should be relieved of the exclusion from foreign exchange business. I have not stated that we do not recommend it because it is not profitable; we gave other reasons; for instance that it is the Bankers' Bank.

Sir Purshotamdas Thakurdas: I am only restricting myself to the point developed between you and Mr. Manu Subedar.

Dr. Jeidels: I am sorry this discussion developed.

Sir Purshotamdas Thakurdas: Surely you cannot make light of the evidence to say that it is not profitable today. Your outlook certainly is not so narrow.

Dr. Jeidels: I am glad you give me an opportunity to state, that I did not wish to make a statement about the profits of foreign exchange business. This is not the proper place to discuss it, and I have not the intention to discuss it.

Mr. Manu Subedar: It would not be good for the Imperial Bank to go into this business because competition was going on and there was no profit.

Mr. Manu Subedar: If the Reserve Bank is established and if the Imperial Bank is relieved of the activities of the Bankers' Bank and Government bank, would you then suggest it as profitable for the Imperial Bank?

Dr. Jeidels: It is not necessary to recommend anything. I have no doubt that the Imperial Bank will at once go into foreign exchange business.

Mr. Shanmukham Chetty: The restriction ought to be removed when the Reserve Bank is established?

Dr. Jeidels: Most certainly. You cannot take away business from the bank and leave it with the restrictions.

Mr. Manu Subedar: You said there was no difficulty you could see in an Indian joint stock bank getting into foreign exchange business and therefore no special measures should be taken. Is that correct?

Dr. Jeidels: Mr. Chairman, I wish to hear from you whether I have answered this question sufficiently or whether I have to answer again.

Mr. Manu Subedar: I am trying to ascertain whether what I have stated is Dr. Jeidels' position. If that is so, I have nothing more to say.

Chairman: I think Dr. Jeidels has already answered that question. In his opinion there are no special difficulties and therefore no special measures are necessary to encourage Indian joint stock banks engaging in exchange business.

Mr. Manu Subedar: If the Committee discover difficulties?

Chairman: If the Committee discover difficulties, it is the Committee's business.

Mr. Manu Subedar: You consider the position of Indian joint stock banks less secure. Less secure than whom?

Dr. Jeidels: Less secure than the position of the Imperial Bank.

Mr. Manu Subedar: You therefore think that the scope for extension of joint stock banking in India is beset with many difficulties.

Dr. Jeidels: Yes.

Mr. Manu Subedar: In order to remove those difficulties, you suggest taking measures. One is co-operation and the other is the encouragement of merchants?

Dr. Jeidels: Yes.

Mr. Manu Subedar: You do not suggest any other measures?

Dr. Jeidels: No.

Mr. Manu Subedar: In the next paragraph you suggest that the indigenous banker may do several things. One is that he may form a joint stock bank.

Dr. Jeidels: I do not suggest it. There are various possibilities, the usefulness of which one ought to discuss. It is out of place to make actual propositions because we are speaking over the head of the indigenous banker.

Chairman: Before you go any further, I should like to remind Mr. Manu Subedar that we decided at the outset not to discuss today the position of the indigenous banker, because something is said at the end of that. I am sorry that Mr. Manu Subedar was not listening. Certain recommendations were given to Dr. Tripp relating to the indigenous banker and his attention was specifically invited to those recommendations and later on we will have specific proposals for dealing with indigenous banker.

Mr. Manu Subedar: There is only one aspect here, which brings him into the field of joint stock banking.

Mr. Shanmukham Chetty: You say in the memorandum that any advantage that the Imperial Bank may have in having the Government balances deposited with it is counterbalanced by the services that it renders to Government, and therefore when a Reserve Bank is established and these balances are withdrawn and placed in the Reserve Bank the Imperial Bank need not be compensated.

Dr. Jeidels: But they still have the staff.

Mr. Shanmukham Chetty: They have to disband the staff. That is all.

Dr. Jeidels: I do not think it is a question of special compensation. The restrictions will be taken away when the Reserve Bank comes and it was suggested in that connection that a certain minimum balance of Government deposit should be left with the bank.

Chairman: That was for a different reason. That was because their agreement was being terminated before the due date.

Dr. Jeidels: The bank at present does service to the Government and employs a special staff for it. This staff is paid from the profits of having Government balances free of interest. If the Government balances are taken away, the staff remains. Of course the services are not any longer to be rendered. Theoretically in such cases the bank can do one of two things; it can either discharge the staff or try to keep the staff and find other business. I would certainly recommend the second course and have no doubt that the Imperial Bank will try the second course.

Mr. Shanmukham Chetty: When the Government advances are withdrawn and the Reserve Bank is created all the restrictions imposed by statute on the Imperial Bank will be taken away and so beyond what is necessary to compensate the disbanding of the staff no more special compensation should be given.

Dr. Jeidels: I do not like to express an opinion on it.

Mr. Currie: In two cases there ought to be some compensation. In the first place the Imperial Bank will lose a considerable amount of balance which it has and as it has always had balances, there should be compensation against balances being withdrawn. Therefore, there is some reason why a certain amount or balance should be left to carry on their business.

Chairman: There is an agreement between the Government and the Imperial Bank under which the Governmnt of India practically contracts to keep its balances with the Imperial Bank.

Mr. Currie: I know that the Imperial Bank by law only makes loans for six months. They have been financing a certain amount of trade which, if the facilities are not available, will have to run round looking for finance somewhere else.

Chairman: Supposing you and I enter into an agreement that you do certain things for me for a certain number of years, two or three years or five years, and after those years have elapsed I terminate my agreement with you . . . . . .

Mr. Currie: The agreement has not yet been terminated.

Chairman: The agreement is now due for termination, it may be terminated at any time by giving 12 months' notice. When Dr. Jeidels referred to the position in 1927, when the Reserve Bank Bill was being discussed, the position then was that the Imperial Bank's agreement with the Government of India could not be terminated. Therefore, there was a case for special compensation, and that is the reason why I pointed out to him that the position has now entirely changed. I think, after some date in 1931, perhaps the 1st of January the Government of India can by giving 12 months' notice terminate the agreement. That being so, where is the case for compensation?

Mr. Lamond: May I make a suggestion? It is entirely a matter for the shareholders to discuss with the Government of India.

Chairman: I entirely agree.

Mr. Shanmukham Chetty: At the time we heard a good deal about compensation being paid to the Imperial Bank with the establishment of the Reserve Bank.

Chairman: Then the conditions were different; then the Government's agreement with the Imperial Bank existed—and it would have existed for another 4 or 5 years—and, therefore, the question of compensation had to be discussed. The same position does not exist now and I think, as Mr. Lamond rightly observed and Mr. Ramadas Pantulu added to that, the question is one between the Government of India and the shareholders and also the Government's legal advisers. This Committee or the foreign experts cannot express any *ex parte* opinion on the question.

Mr. Manu Subedar: May I just get one point cleared up, namely, the facilities to trade. Could not these same facilities be secured through the Imperial Bank to the same people by additional re-discounting from the Reserve Bank? The trade would not be worse off. You said the Imperial Bank is giving certain loan facilities to certain people at present from certain funds available to them. If those funds are taken away, what would happen in regard to those loans? They would be called back. I put it to you whether the additional rediscounting facilities which the Reserve Bank would create would not put the Imperial Bank in funds to afford the same facilities as before.

Mr. Currie: I do not think that it would. The facilities which the Reserve Bank will give for rediscounting are facilities for an emergency; they are not facilities to be given for every day; the Reserve Bank would be resorted to only when there is a crisis.

Mr. Manu Subedar: I will take up the rest of this question with Dr. Tripp when we come to the Reserve Bank.

Chairman: We have finished this part. I have nothing here on which I want to receive further information. There is one matter referred to there in regard to the auditing of balance sheets, etc., on which we shall expect a special memo. from the experts.

Mr. Manu Subedar: You refer to the United States practice. It is really a question of whether it is desirable to have local joint stock banks or to have branch banking. In its application to India which would you prefer?

Dr. Jeidels: Certainly branch banking.

Mr. Manu Subedar: Don't you think that contradicts your suggestion—I am sorry to bring in the indigenous banker again—that the indigenous banker turns himself into a joint stock bank and that would create local joint stock banks.

Dr. Jeidels: No, I am for both.

Mr. Manu Subedar: You would like, as circumstances permit, both kinds of development to go together until they met somewhere.

Dr. Jeidels: I think one ought to have a diversified plan; one ought to try all ways and no preference should be given to any one system.

Mr. Manu Subedar: In your memo. you speak of the danger of what you call a money trust. In India this word has been used with regard to the Imperial Bank and it has been urged that if the Imperial Bank went on expanding it would cut out joint stock banks and it would become a sort of money trust.

Dr. Jeidels: That argument is one of the most popular in small newspapers in all countries.

Mr. Manu Subedar: Already that point has been placed before us by those who are apprehensive that the expansion of the Imperial Bank branches was going to cut at the root of the joint stock banks.

Dr. Jeidels: Any interference would be very much to the detriment of the country at large.

Mr. Manu Subedar: Do you see any danger of that?

Dr. Jeidels: No, none at all.

Ch. Mukhtar Singh: You say: "A capital of one lakh may be used to establish a sound little banking institution, while five lakhs of capital may be utterly mismanaged". I cannot understand whether you mean that five lakhs is a very big capital.

Dr. Jeidels: I mention this to show how difficult it is to make a regulation for the so-called minimum capital. If you make a regulation for a minimum capital you have to fix it somewhere. It is only an illustration to show how futile such regulation would be. If you fix the minimum too high, you will harm the country's expansion of banking facilities.

Mr. Jamal Mahomed: You speak of the duties and rights of the Board. Would you like to put some restrictions on the borrowings of Directors?

Dr. Jeidels: In western countries I think it would be practically an impossibility. I have before me the annual report of the largest German Bank, which has the benefit of 113 advisers. It has 113 members of the Board of Directors. It is so extraordinarily large, because it was a merger of two banks and a matter of courtesy to take them all in. It is interesting for anybody who can read the language and even for those who cannot, because it is a simple list. With every member of the Board his profession is mentioned his firm or that he is general manager of this or that Company, etc. These gentlemen are or represent of course the best customers; they are taken on the Board because they are or because one expects them to become good customers of the Bank. If one would exclude these gentlemen from the Board, one would reduce the business of the Bank. I admit that in this country, especially with smaller joint stock banks, the matter is somewhat different. But regulations apply to large and small banks; they are intended to prevent dangers, but might impede legitimate business.

Lala Harkishen Lal: What is the name of the bank?

Dr. Jeidels: The Deutsche Bank and Discontogesellschaft.

Mr. Jamal Mahomed: There is nothing to prevent the Directors borrowing in these banks. All that I mean is the lending authority should not also be the borrowing authority.

Dr. Jeidels: Such regulation would have a remarkable effect. A merchant on the Board of the Bank of India is not allowed to borrow from

the Bank of India, but he could borrow from the Central Bank of India with which he has no intimate connection.

Mr. Jamal Mahomed: He can draw on any other bank except the bank of which he is a Director. Would you put a restriction like that?

Dr. Jeidels: I do not want any legal restriction. This should really be a matter for the Board. The Board ought to issue instructions for the management in various ways—how much the manager himself is entitled to borrow and so on—but legal restrictions would, I fear have unforeseen disagreeable effects. May I say that these remarks in the memo. are only offered as observations from a practical point of view, because on these matters you have heard from your witnesses, whom I do not wish to criticise, many doctrinaire suggestions, which are well meant but not based on business practice; it is to the practical business side that I wished to draw your attention.

Chairman: These matters will have to be further discussed in connection with Mr. Cassells' paper regarding the regulation of banking. That being so, I do not want to pursue the matter further with you. I might suggested to you Mr. Jamal Mahomed that you might simply express your view and then it can more properly be discussed in another connection. Then no further questions will become necessary. We may have heard other views, but Dr. Jeidels gives us his view as a practical banker, and his view is that there should be no restrictions.

Mr. Jamal Mahomed: I just want to get his advice, Your banking system is fairly well developed.

Dr. Jeidels: It is a well developed system.

Mr. Jamal Mahomed: But our cry in India is that there is plenty of capital in the country, but it is very shy to come out. In order to inspire confidence in the investing public, would not something like a restriction on borrowings by the Directors be of some use in inspiring confidence in the public so that the capital may come out?

Dr. Jeidels: I quite appreciate the point. In a country with so many small banks there is danger in banking business. But I feel obliged to show you that if you make such regulation for small banks, you create unintentionally a difficulty for the large joint stock banks. Many good arguments I admit, have been brought forward with regard to these banking regulations.

Mr. Jamal Mahomed: In America I understand there is a good deal of restriction on the operations of foreign banks. For instance, I am told that they cannot have current accounts and that sort of thing in the United States of America. Is that a fact?

Dr. Jeidels: I did not speak of foreign banks.

Mr. Buckley: May I put you right? I think that restriction in America is only in the State of New York. It is not a federal restriction.

Mr. Jamal Mahomed: I think in many countries there is a restriction on the receiving of deposits. Have you any such restriction in Germany?

Dr. Jeidels: No, nothing.

Mr. Jamal Mahomed: Would you think it advisable to have some restriction on the receiving of deposits by foreign banks in India?

Dr. Jeidels: This is a matter to be discussed on another occasion.

Sir Purshotamdas Thakurdas: We are now dealing with the third question of Dr. Jeidels. As I went through the memo. I am afraid I have not been able so long to tell what is his conclusion upon it. We ought to discuss something concrete. Dr. Jeidels asks a very relevant question, a very interesting question and then when he deals with it in the relevant paragraph 6 & 7 he makes some very useful suggestions, but what is the conclusion of Dr. Jeidels and what is it that are we discussing now?

Dr. Jeidels: I have been somewhat systematic. You know that it is a bad habit of my countrymen to be pedantic. I have tried to build the whole subject up on a systematic basis. The establishment of confidence in banking is an important matter with which you would deal again in discussing regulation of banking. From my point of view the principal object is to raise the standard of banking.

Chairman: To your question No. 1 you have given a reply according to your opinion; to your question No. 2 you gave a reply. What is your reply to question No. 3?

Dr. Jeidels: I have not given an answer or conclusion. An effort has to be made to keep a high standard of banking. What is to be done? Is it regulation or is it not regulation? I intended to express a sceptical opinion about the possibility of regulation, nothing more.

Dr. Hyder: Say something positive about the standard.

Dr. Jeidels: In order to do this, one has to live and work in a country; then one will learn what the standard is. Somebody who does not know conditions intimately ought with regard to the standard rather err by optimism than by pessimism.

Mr. Manu Subedar: Do you find the standard in India is as it should be or is it a little low?

Dr. Jeidels: It is difficult to say. I have asked Indian and non-Indian customers of banks, I have taken slight opportunities to talk to bank clerks, to study just this point, and can say that, generally speaking, I have never had a really unfavourable impression.

Dr. Jeidels: You have seen that I have protested against the abuse of small paid up capital and large authorised capital. This is really a nuisance, and if a bank invites deposits for 10 and 15 years and has only Rs. 80,000 paid up capital as against an authorised capital of Rs. 5 lakhs, it can only mean that they want the public to gain the impression from the advertisement that the capital is 5 lakhs. This ought not to be tolerated.

Sir Purshotamdas Thakurdas: You might just throw out a few hints as to what should be done.

Dr. Jeidels: At the same time I wish to take a sympathetic view; also small joint banks should have a chance and ought not to be discouraged.

Mr. Buckley: On this question of small banks my experience is this. If you take up the "Capital" most weeks you will see the flotation of numerous banks, and I have got particulars of a bank which started in Clive Street, and after paying the preliminary expenses had a cash balance

of Rs. 533. I am just mentioning this for Mr. Cassels's information when he writes his article on Regulation of Banking. We all agree that we must build up banking, but at the same time we do feel that something, if possible, should be done to stop this growth of mushroom banks, which results in depositors losing their money and progress of banking being checked. I know there is a school which is very much averse to prohibiting anybody starting banking business, but I am sorry to say we do feel,—I have material to place before the Committee later on when we come to the discussion stage,—that there are a number of banks started in this country, which ought not to have been allowed to be started, because, as you say, they start with a large authorised capital, but practically nothing paid up, and we, exchange banks, for example, who have sometimes to send cheques to them for collection where there is nobody else, have to engage in volumes of correspondence, and sometimes our cheques are not even paid. Dr. Jeidels has said that something perhaps might be done in connection with a minimum amount of paid up capital. That is very difficult to prescribe. We all understand that. At the same time if it is possible to abolish abuse we feel that it will be in the interests of banking generally to do so.

Dr. Jeidels: I attach great value to the proposed Joint Stock Bankers' Association. The members of the Association will say—"We will not admit anybody who shows in public advertisements misleading figures".

Mr. Ramdas Pantulu: I will bring to the notice of the Committee a case which came before the court in Madras. A protest meeting was held in Madras to safeguard people from the activities of such banks. Dewan Bahadur Ramachandra Rao presided over the meeting, which was just before he left for the Round Table Conference. He delivered a speech on fraudulent banks and said that people should not invest in such banks. Immediately a suit was filed against him for damages for Rs. 10,000 by a bank which had existed for only one year. Within a week after it went into liquidation, and the suit lapsed.

Dr. Jeidels: The suit seems to have been filed to get funds for paying up the capital.

Mr. Rushforth: With reference to your general remarks with regard to legislation I have just one word. Have you seen copies of the liquidators' reports of various banks in India that have failed? They were submitted to us by the Bombay Shareholders' Association. If you go through the detailed reports you might see certain circumstances in Indian failures which might call for special legislation.

31st January 1931.

MEMORANDUM ON INDUSTRIAL BANKING.

by Dr. O. Jeidels.

It is necessary to start from precise definitions and it may therefore be allowed to replace the term 'Industrial Bank' by 'Industrial Corporation'. Nowhere does an institution which in the proceedings of the Banking Enquiry is styled 'Industrial Bank' take deposits or perform other banking functions such as opening current accounts and general banking business. If they give loans to industry they are long-term and take the place of Stock-and-Debenture capital. *Industrial banking* on the other hand means doing banking business with industrial firms. This is done by all commercial banks in all parts of the world. It is not correct to say that India has no industrial banking. There is probably no industrial enterprise which does not directly or through its Managing Agents do business with some bank of the country keeping balances with the banks or taking loans and using the services of the banks all round. What the banks in this and several other countries do not cultivate is the long-term financing of industries; I propose to call it 'Industrial Finance' distinguished from 'Industrial Banking'.

It seems necessary to state clearly, that "starting of industries" is nowhere considered to be a bank's affair. It has to be made clear that it is not sufficient in itself that an industrial firm should put up its block from its own capital and that having done so the firm can appeal to banks for loans and assistance. Not only block but also normal working capital has to be furnished out of the firm's own initial capital, and before the firm is fit for Industrial Banking or Industrial Finance, it must have been in operation for a sufficient period to prove that it is strong enough. It cannot be sufficiently emphasized that these two conditions are essential, and to attempt a different way of financing is not only unwarranted for the bank but also unsound and dangerous for the industrial enterprise.

In the Indian Banking Enquiry the German banking system is repeatedly quoted as different from these principles. This assumption is misleading and ought to be eliminated, because it leads to the recommendation of a pattern which does not exist. Only a few months ago a book was published by P. Barrett Whale, lecturer in commerce in the University of London—'Joint Stock Banking in Germany.—A study of the German Credit Banks before and after the War.' (MacMillan & Co., Ltd., London 1930). It is, in fact, the only comprehensive and neutral study on the subject giving the facts with careful comment and cautious conclusions.

In what respect does the German banking system differ from the English? Owing to the fact that English Banks cannot be members of the Stock Exchange and to the presence in London of several large international Issuing Houses, the English banks tend to delegate some of the functions of Industrial Finance to issuing houses and stock brokers—the German banks perform these duties themselves. They do a large commission business for their clients in the stock-market and they cultivate financial transactions which arise from time to time in the life of industrial and similar joint stock companies. If such companies wish to procure new capital, whether it be from its existing shareholders or by a sale of new shares or debentures to outside parties in the general capital market, then under the German system the company does not go, as under the English

system to an issuing house or to a stock broker instead of arranging the transaction with the bank with which the company is in permanent banking relations. The German banking system is comprehensive, while the English system is specialised. The Banks in U. S. A. have cultivated for several years the business of Industrial Finance in special Security Companies, which belong entirely to the banks, of which they are practically only a department. Under the German banking system such financial transactions which occur from time to time are however limited by the same conditions which govern the English issuing houses or stock-brokers. They require a responsive capital-market and if the public are unwilling to put up the new capital required by the industrial company and which is offered to the market in a suitable shape, then the banks under the German system will not take the place of the public. They will not themselves furnish to the industrial company what the investing public is not prepared to take. The financial transactions mentioned require a certain amount of capital investment which however must remain below and be in conservative relation to the share capital and reserves of the banks. The amounts invested in such industrial finance while remaining more or less stable in the aggregate change in their composition as quickly as market conditions will allow. If the public is not responsive to the offer of the securities resulting from such industrial financing, then the amount normally invested by the banks, in this branch of their activity, cannot be raised, but the participation of the banks in financial transactions of that kind must cease until the public is again prepared to buy securities.

The ordinary banking business is also, under the German system, decidedly the most important department, because in that banking department the deposits from the public are employed while in the department for industrial and similar finance only a limited share of the capital of the bank can operate. What is described above as the business of the Indian Joint Stock Banks and partly the Exchange Banks with industrial firms is done similarly by banks under the German system.

While it has been necessary to destroy some illusions about the German banking system with regard to its activity in industrial matters, the German system offers indeed a great many advantages for the industrial development of a country and benefits the banks as well. This however is only on the condition that the business of finance is handled with the utmost caution and care. Banks engaging in industrial finance should not and indeed do not start new industries nor should they manage industrial enterprises by themselves. German banks do not employ a staff of industrial experts nor do they delegate members of their own staff to undertake the management of industrial companies. What they do is to cultivate, through ordinary industrial channels not only regular commercial banking business, but also financial transactions, if an opportunity occurs. They incidentally get to know their industrial customers better. They develop a sympathetic attitude for the needs of industry. They watch closely for every possibility of doing business which will be profitable to both parties. The banks may then delegate a member of their management to act on the Board of Directors in order to maintain a close connection with the company. The English banks also do this. The system of close intercourse between bank and industry creates an atmosphere of mutual confidence. The result is beneficial to both parties. The banks must not however allow themselves to be drawn into liabilities and investments which are

not compatible with sound banking. The sympathetic attitude of banks towards industry is the real element of this banking policy. It deserves the appreciation which it has found in the Banking Enquiry.

It must be admitted that, in India, no banking agency cultivates industrial relations on the line of the so-called German System nor does an institution, like the English issuing House, which could fill this vacancy, exist in the country. There is the stock broker with his customers in and outside of the Stock Exchange. There is sometimes the indigenous banker with his clients. There are occasional promoters, but to a large extent the vacancy is filled by the Managing Agents.

The Managing Agent is a very interesting institution, not familiar to European or American bankers and it deserves a thorough study of the advantages and disadvantages pertaining to it. Under the system large and prosperous industries have been started in this country. A table available gives a short and not quite complete list of a few hundred stock companies, the shares of which are quoted on the Calcutta Stock Exchange. It illuminates, the activity of some of the most important firms of Managing Agents operating in the Calcutta field. It should not be with the intention of eliminating or even largely replacing the Managing Agents that the big banks should in future take a greater interest in industry on the lines described above. The Managing Agent system is open to criticism. There ought to be still another financial agency to meet the requirements of industrial firms, which would make industry less dependent on that institution. A company with a proper board enjoying friendly sympathy and banking advice, ought to be in a position to manage its own affairs. A period of prosperity for some Indian industries in the boom period after the War has been followed by international depression in the Cotton Trade and more recently by the international economic crisis. It is not unlikely that as in all other industrial countries, changes will take place-mergers, reconstructions of unsuccessful firms, and so on. Sooner or later such transactions will require outside financing and this will be the opportunity of starting closer relations between bank and industry. Which kind of banking agency will be most capable to lead this development?

The Exchange Banks are generally indifferent or adverse to financial transactions with industry beyond the frame of commercial banking. They argue that they specialise in complicated finance of foreign trade to which a certain amount of commercial banking is attached. They believe that it is not their business to be represented on the board of industrial companies or to lend their name, organisation and eventually part of their resources to financial transactions based on the sale of securities to the public. There is much in the argument.

Among the Joint Stock Banks there are very few large enough to be capable of this class of business. As evident, it requires much experience and an established policy of sound banking. It requires considerable capital and a firm resistance to the speculative temptation which easily arises in a line of business, where securities are created and sold. The bulk of Joint Stock Banks are unfit for this activity. Even the larger ones ought only to cultivate it slowly, with great caution, and preferably under competent guidance as participants in strong syndicates.

There remains the Imperial Bank. This strong and well-managed institution might by and by develop the business of industrial finance on conservative lines. It is out of place to give this suggestion the character

of detailed advice as it is a matter for the shareholders, the management and the board of directors to decide upon their own business. But the opinion is expressed here, that when the Reserve Bank comes into being the Imperial Bank would be capable of developing this business and that benefit would result not only to industry and the general economic development of the country but it might also be equally profitable for the bank itself. It is doubtful whether the Imperial Bank is under the present restrictions and privileges in a position to enter this field successfully. As it requires a systematic preparation, it does not seem too early for the Bank to study the ground and lay the foundation. It may for instance be useful, to establish an industrial research department inside the Imperial Bank. It would have to be on a somewhat larger scope than the usual Statistical or Intelligence Department and could use the insight which the branches of the bank already possess or can easily collect.

Investment Market.

As the extent, to which banks can cultivate financial transactions with industrial or similar Joint Stock Companies, depends on the capacity of the capital-market, some observations on the volume of it in India may follow.

The Banking Enquiry has heard much complaint about the insufficiency of the capital-market in India. It is useful, to try this statement by auditing statistical figures. After all, the boom period following the War allowed the flotation of many stock companies and a speculation which would do honour to any speculative performance of a Western or American Stock Exchange. The extent of a possible investment-market may be illustrated by the following figures.

Official statistics on the Joint companies (Government publication No. 2212, 1930) give the number of Joint Stock Companies with rupee capital for 1928 as 5831 with a paid-up capital of 276 crores. The figure, although companies with a capital in pounds sterling are excluded as not representing Indian capital proper, requires some modification in order to arrive at those shares likely to be in the hands of the public. A compilation has therefore been made from the Calcutta Stock Exchange quotation list which includes most of the shares quoted in Bombay. The part value of those shares is about 85 crores in common and about 20 crores in Preference Shares. Considering that a fair amount of these shares is in the hands of Managing Agents and that on the other hand the majority of the shares are quoted at a premium one may estimate the value of shares in the hands of the public at about 125 crores. This does not include shares to the value of 75 crores which is held in special hands and which are also eventually available for investment. Debentures and fixed deposits with stock companies may on the strength of a share capital of the Cotton Mills in the country of 40 crores and 10 crores of debentures listed in Calcutta, be estimated at about 30 crores. The Government loans in India, exclusive of treasury bills which are more an element of the money than the investment-market, should figure in this statement with about 350 crores out of about 400 crores outstanding, the difference being Government securities held by banks and insurance companies. Municipal and Port Trust loans in rupees are about 70 crores. To these investment securities should be added the deposits of the public with banks and the post office (including certificates) in an aggregate amount of about 300 crores which are at least

partly available for capital investment. The deposits with co-operative institutions are left out of account as not being available for the investment-market. If on the strength of these figures the capital-market in India itself is estimated at somewhere near 700 crores, one is not justified in speaking about the Indian investment-market in a derogatory way. The estimate excludes not only the bulk of foreign capital working in the country, but also the hoarded property in monetary form and the amounts used in money lending.

The figures also show to what extent the Government absorbs the available investment capital. It does not appear to be excessive considering all circumstances.

Altogether the capital-market in India seems to be large enough to meet legitimate demands and to give room to a certain activity of banks in the fields of industrial financing. For quicker economic development it should be able to draw upon two resources; the hoarded monetary property and foreign capital markets. The problem of hoarding does not appear to have been investigated very successfully in the Banking Enquiry and it ought to be gone into further in the course of verbal discussion. As hoardings the personal ornaments should be more or less neglected; this kind of hoarding is so deeply rooted in the customs of the great mass of the people in this country, and the primitive character of most of its savings, that only slowly, can these amounts be turned into available monetary capital. Only the hoarding of money, of gold and silver bullion, of bank notes and ornaments of high value, which seems to be cherished from the lower middle classes up to wealthy princes and zemindars, can be counted upon as eventually being made available for the capital-market. Foreign capital for India has not been encouraged lately by the general state of affairs; the country has to be aware that a more rapid economic development, particularly one with so largely agricultural character, is scarcely possible without the attraction of foreign capital. If foreign capital is to be dispensed with a slower speed of economic progress has to be accepted in consequence.

The demand which economic requirements of the country are likely to present to the investment market may be roughly classified as follows:—

1. Government including requirements of the railways and the provinces, Municipal and Port Trust loans and those capital expenditures of the Central Government which lie in the direction of developing resources of the country, agricultural and industrial. Practically all new loans issued by the Government in India are normally for productive capital expenditure, which if not by the Government would have to be supplied by the capital-market to private enterprises.

2. Banks and industry in form of shares of debentures. A better cultivation of a market for debentures is strongly to be recommended. Debentures should sooner or latter replace the public's fixed deposits in Industry which are, undesirable. Debentures are in all Western countries a most legitimate and useful instrument for industrial financing and the critical attitude of the public and the banks in India calls for early revision.

3. Sooner or later the market should be opened to mortgage bank debentures. The difficulties of organising safe and efficient mortgage banks will have to be dealt with under Rural Credit. They seem so great that it is not very likely that large issues of such bonds will be soon offered to the public but it is essential for the future welfare of the country that the

capital markets, domestic and eventually foreign, become accustomed to this class of Indian investment.

The banks, if they can see their way to acquaint themselves more with financial transactions for industrial and similar companies, will have to study and cultivate the investment market more or less on the lines which have been described as the German Banking System. Educational influence on the public with regard to investments requires much time and patient effort and has its limits. The banks—this cannot be sufficiently emphasized—can neither direct nor force and they certainly cannot by their own resources replace the capital market. If the country can or will not make hoardings or foreign markets available for those investments which supply the capital needs of industry and agriculture, neither the banking system nor the individual banks can be blamed for slow progress.

Industrial Corporation.

(Industrial Bank).

What is in the mind of so many contributors to the Banking Enquiry, that an Industrial Bank or even Industrial Banks should start and nourish new industries big and small, urban and cottage, does not exist anywhere. What does exist which is at least similar to the ideal put before the Banking Enquiry?

Only in one country is there an industrial bank which to some extent seems to fit the model: the Industrial Bank of Japan Ltd. A short paper is submitted on some principal features of that institution as gathered from an important Japanese gentleman in India who however had no possibility to inform himself profoundly on the subject. The Japanese experiment differs from the model because it does not try to finance small industries. According to the informant's knowledge small industry is financed by co-operative organisations which sometimes receive long term loans from the Post Office Savings deposits which means from the Government. Japanese method and experience ought to be studied more closely but India ought to be very reluctant to adopt the Japanese system of all-round State aid in economic life which has still to prove its success. What has happened in Japan during the last few years? A temporary stoppage of payment by practically all banks, and the forcible interruption to which the whole economic life of the country has been subjected, at various junctures, is a grave danger-signal.

There has always been a strong State and municipal activity in industry in Germany. While principally concentrated on Railways and public utilities, it has, especially since the War, extended to some industries. These are either of a monopolistic character or are a residue of state-aid to enterprises which, due to the after effects of the War, were threatened by ruin and were considered as essential to general welfare, of the country. Most of this state activity is done in the form of Joint Stock Companies, whose capital belongs to the Government and which are managed on a purely business basis, with a board consisting of Government representatives and competent private business men, and with a management on the same lines as in other joint stock companies.

Although other Western countries are less inclined to State activity as commercial or industrial entrepreneur, still the State in some countries has

more recently engaged in business and ventures beyond the operation of railways, though rarely outside of public utilities (gas, water, electricity, street traffic).

Those companies are entirely on private lines which under various titles act as Holding Companies for shares and bonds of mostly industrial character. One has to distinguish between Investment Trusts and specialised Holding Companies for which the title 'Managing Trust' may be offered. The Managing Trust is a holding company for one specific industry with subsidiaries, with the object of ensuring competent supervision and assistance in the management, and to supply the capital in all varieties of financial transactions suitable to the public. These Managing Trusts are preferentially devoted to public utility companies and exist in all western countries, as for example the Electric Bond and Share Company in U. S. A. and the Sofina (an abbreviation for translated Industrial Finance Company for Electrical Enterprise) in Brussels. These trusts are, though finance companies, not banks nor administered or largely influenced by banks, they are clients of the banks doing industrial finance, like other industrial companies. While the Managing Trust concentrates on one industry, the Investment Trust's principle is to diversify investment. The resemblance to the Managing Agents of this country is striking, but not complete. The Investment Trust in its classical scrutiny relies on the possibility of cheap finance in the capital-market; the trust borrowing at a cheaper rate from the public in form of its own debentures and preference shares than the yield of the investment securities acquired and held by the trust. It is evident that the rate of interest in India is not and for sometime it is not likely to be low enough to warrant the formation of investment trusts. This statement may suffice to answer the suggestions submitted in this respect to the Banking Committee. There are now many investment trusts in existence, which are of a more speculative nature. They have, with not very pleasant results, tried to combine the interests of speculative share-holders in a joint venture, the Investment Trust buying such shares which are believed to have intrinsic chances in various fields. An abundant speculative capital-market is the origin, though scarcely a full justification of such trusts. The Investment Trusts are only so far connected with banks or bankers as they form an outlet for securities created in financial transactions for industry or in other fields. In Germany there exist several large Managing Trusts but no important Investment Trust.

It was necessary to demarcate the field for an Industrial Corporation in India. Independent of foreign models it seems necessary to eliminate two kinds of activities.

1. An Industrial Corporation which would, as the financial success is not assured and the company would almost certainly not for some time appeal to the private investor, have to be financed principally by the Government, must not enter competitive fields of industry. It would be unfair and unjust if money of the Government would be used directly or indirectly to compete with private industry. For instance, no jute or cotton mill, no sugar factory or soap mill, etc., fields in which private enterprise is already active, must receive the Industrial Corporation's financial assistance. It would not even be beneficial from the point of view of the community at large because the artificial increased competition though giving employment in the new concern would create unemployment at other places.

2. Small industry must be avoided by the Corporation, because no competent management is imaginable for an unsystematic collection of industries. The failure of the whole instrument would be unavoidable.

Even when taking these precautions, a field remains for an industrial corporation, the capital of which is initially or permanently supplied by the Government. It is the field of pioneer enterprise of non-competitive character, the opening up of mineral resources and large public utilities, principally electrical power schemes. In either kind of enterprise the capital required is so large and the intermediate stage, before profits can be made so extended that special assistance may be required or useful. There the personal initiative and commercial business spirit, the immediate responsibility of the individual business man is less important than scientific management. The country at large and less so special interests, is benefited. The temptation to try something here and something there must not be gratified.

The financing of an Industrial Corporation of this kind would indeed have to be done as suggested in the Banking Enquiry through a share capital and debenture issues. The proportion 2 : 1 for bond issue capital ought not to be exceeded. Financial Government assistance ought to take the shape of the Government acquiring the share capital, but the Government ought not to guarantee debentures. If Government supplies credit it should be itself in a position to borrow at the cheapest rate and lend it cheaply. If this rule in State finance is not always adhered to, one certainly ought not to recommend it as a new venture. A company with the share capital in the hands of Government should give sufficient security to a debenture issue of twice the capital, at least if the undertakings of the company are sound. In this way the company acts to a large extent under its own responsibility, which will help efficient management. The Government may welcome the opportunity of having Government undertaking entrusted to the form and management of a joint stock company which will do a part of the financing without Government liability.

An Industrial Corporation must have competent and independent management. The board would have to consist of first class businessmen and some Government officials; no private business interest, no local, no political influence must interfere. Only an All India Corporation must be considered. Otherwise local and private interests will endeavour to get hold of the scheme, and if they succeed other local and private interests will atonce push forward. The Industrial Corporation will run the danger of becoming a pandemonium of partisan struggle and incompetence.

Practical experience proves that a company with a certain purpose ought not to be formed without an immediate constructive object. As the saying goes, 'one ought not to buy the frame before the picture'. When some industrial plan fitting in the frame as designed here, offers itself, then the time has come to start an Industrial Corporation.

The cottage industries strongly deserve cultivation, but what can be done by banks is in all countries comparatively little, and for industrial banking and finance the small industries can never be a field of activity. Banking business cannot go beyond a certain minimum size. The 'urban' co-operative organisation will have to be developed and may derive benefit

from the experience of the respective German co-operative movement 'Schultze-Delitzsch'. While the corresponding co-operative societies in India are 3,757 with 6,75,000 members, with 3¼ crores of capital and 5¼ crores of deposits, the German organisation comprises in 1375 societies somewhat over one million members, has capital and reserves of about 20 crores and deposits of about one hundred crores, which figures contain however not only small industry but also small traders and retailers. As mentioned in the memorandum on Commercial Banking, one of the large German joint stock banks is serving as their financial apex which should make the study the more interesting.

Some Figures on the Present State of Industrial Development in India.

The Provincial Reports of the Banking Enquiry have according to the terms of reference of the Provincial Committees not discussed large industry at all, and in the evidence and examination of the Central Committee the large industry seems also to have been rather neglected. The following figures wish only to cover the larger industries conducted as joint stock companies.

The annexed three tables are therefore offered showing the fair extent of Indian Industry and seem to prove particularly that in those fields where the natural resources of the country call for an industrial activity, like cotton, jute and tea gardens, industry has developed on a large scale and can with regard to size and quality match corresponding industries in western countries.

Table No. 1 shows a condensed extract from the statistics on joint stock companies in India. The statement showing 5831 joint stock companies with 276 crores of paid-up capital excludes all companies with a capital in other currencies but rupees. The actual industrial activity in India is therefore considerably larger, and from the point of view of employment of the material and living substance of the country, enterprise belonging wholly or partly to foreigners is certainly to be counted in a summary of Indian Industry, but it is not done so in this statement.

Table No. 2 gives a compilation of industrial shares and bonds quoted on the Calcutta Stock Exchange. This statement shows essentially large industry, because the shares of other companies would not be listed. It shows exclusively industrial enterprise, leaving aside bank and insurance shares, Port Trust securities and all bonds which are not of a purely industrial character. Here again shares and bonds in other denomination than rupee are excluded, to arrive as a result of the compilation at about 95 crores par value of common shares, 20 crores preferred shares and 11 crores of debentures.

Table No. 3 gives a still narrower extract of large industry by showing 385 industrial companies the capital of which is listed in Calcutta and whose managements lies in the hands of larger firms of Managing Agents.

No. 1.

Joint Stock Companies in India.

From Government Publication No. 2212 (1930).

—	1927-28 No. of Companies.	Paid up capital (crores).
Banking and Loan	1,363	23·2
Insurance	86	2·2
Transport	226	20·5
Trade and Industry	2,948	161·1
Cotton mills	289	40·4
Jute mills	61	16·5
Iron and steel	47	3·0
Tea and Plantations	575	13·0
Mining	330	40·0
Sugar	36	1·9
Miscellaneous	267	14·7
Total	5,831	276·6

Distribution over the country.

—	Banking and Insurance.		Industry.		Tea.		Miscellaneous.		Total.	
	No. of Companies.	Capital.	No. of Companies.	Capital.	No.	Capital.	No.	Capital	No.	Capital.
		crores.		crores.		crores.		crores.		crores.
Bengal	710	8·3	1,608	84·5	420	10·1	130	4·8	2,868	107·7
Madras	336	3·1	263	8·0	27	1·1	32	0·4	658	12·6
Bombay	74	8·6	681	82·3	4	0·2	48	8·9	807	100·0
U. P. and Delhi	34	0·5	199	12·2	2	·1	36	1·0	271	13·8
B. and O.	16	0·1	64	1·4	3	..	1	..	84	1·5
Punjab	29	0·9	150	1·5	..	..	8	0·9	187	3·3
Burma	17	0·6	227	23·9	18	0·3	24	0·6	286	25·4
Central Provinces	10	0·1	43	1·0	..	..	2	..	55	1·1
Assam	34	0·1	37	0·1	55	0·6	7	..	133	0·8
Indian States	183	3·0	203	6·3	43	0·6	14	..	443	9·9
Others	6	0·1	29	0·4	3	..	1	..	39	0·5
Total	1,449	25·4	3,504	221·6	575	13·0	303	16·6	5,831	276·6

The 17th January 1931.

No. 2.

INDIAN INDUSTRY.

From the list of quoted shares and bonds on the Calcutta Stock Exchange.

		Crores of Rupees.	
1. Common shares quoted in Calcutta (par value.)			
Bombay share:	Cotton mills	6·6	
	Miscellaneous	17·7	
Calcutta shares:	Jute	11·1	1,875,000
	Tea gardens	5·4	
	Coal	4·1	120,000
	Other industries	34·1	1,500,000
	Transport	10·0	1,200,000
	Wool, cotton mills	4·8	
		93·8 +	4,600,000
2. 141 different Prf. shares with par value		20·5 +	2,125,000 (8 companies)
3. 78 debenture issues for an amount of		10·6 +	760,000 (4 issues).

Of the companies from the Calcutta district (not Bombay), the share of which are quoted in Calcutta, 385 are managed by 36 firms of managing agents. The largest firm, *Andrew Yule and Co.*, managing not less than 54 (10 jute mills, 18 tea gardens, 14 coal companies, etc.,) *Martin and Co.*, 22, *McLeod and Co.*, 17, *Gillanders Arbuthnot and Co.*, 17, *Shaw Wallace and Co.*, 16, etc., (specified list attached).

Of the 36 firms of managing agents 7 seem to be limited companies, the rest private firms, 6 firms may be regarded as specialists managing only in one trade. A firm like Duncan Bros., manages not less than 24 tea companies and one jute mill besides.

The activity of the managing agents is in fact much larger, the number of companies and private firms outside the Calcutta stock list being considerable. Andrew Yule and Co., for instance are reported to manage altogether about 125 enterprises, including also zemindari estates.

(Appendix to Indian Capital Market companies quoted in Calcutta.)

List of Calcutta Managing Agents.

Name of Managing Agent.	No. of cos. managed.	Jute.	Tea.	Coal.	Electricity and engineering.	Transport.	Sugar.	Other industries.
1. Andrew Yule & Co.	54	10	18	14	...	3	1	8
2. Duncan Bros.	25	1	24	...	...	...	...	...
3. Martin & Co.	22	...	...	7	6	8	...	1
4. Octavious Steel & Co.	20	...	13	1	5	1	...	...
5. Begg Dunlop	17	4	13	...	...	...	...	...
6. Bird & Co.	18	8	...	3	2	5	...	...
7. McLeod & Co.	17	5	6	...	...	6	...	...
8. Gillanders Arbuthnot & Co.	17	2	5	3	...	6	...	1
9. Williamson Magor & Co.	17	...	16	1	...	...	...	...
10. Shaw Wallace & Co.	16	...	7	6	...	...	...	3
11. Jardine Skinner & Co.	16	4	6	4	...	...	...	2
12. Kilburn & Co.	15	...	9	3	2	1	...	...
13. Davenport & Co.	14	...	14	...	...	...	...	...
14. H. V. Low & Co.	13	...	...	12	...	...	...	1
15. Balmer Lawrie & Co.	12	...	...	2	5	...	...	5
16. F. W. Heilgers & Co.	11	2	...	8	...	...	...	1
17. McNeill & Co.	10	1	...	8	...	...	...	1
18. Killick Nixon & Co.	9	...	...	...	2	7	...	—
19. Begg Sutherland & Co.	8	...	...	...	1	...	5	2
20. Villiers Ltd.	6	...	3	3	...	...	...	...
21. Kettlewell Bullen & Co.	6	2	1	...	...	...	...	3
22. Geo. Henderson & Co.	5	2	3	...	...	...	...	...
23. Birla Bros.	4	1	...	...	...	...	...	3
24. Jas Finlay & Co.	4	1	3	...	...	...	...	...
25. Thomas Duff & Co.	3	3	...	...	...	...	...	...
26. Other firms (11)	26	6	6	4	6	3	...	1
	365	52	147	79	29	40	6	32
No. of all respective companies as quoted	...	73	160	1	50	44	...	...

INDUSTRIAL BANK OF JAPAN, LTD.

1. Established 1902.

2. As Joint Stock Bank (General Public as Shareholders).

3. Capital paid-up, Yen 50,000,000 (just about equivalent of £5,000,000), Reserve Yen 19,265,000;

Bonds issued Yen 265,074,627 (outstanding) against which,

4. *Bank's Investment.*—Bonds and Stocks Yen 38,770,823. Fixed term loans Yen 276,133,280 (Fig. June 30, 1929).

5. Their investments are in Loans, Discounted bills, etc., chiefly on Factories, Mills, Shipping with securities in—

1. Factories including land and machines as securities under special registry law in Japan.
2. Bonds and Stocks of Industrial concerns.

6. Directorate and Governorship by the appointment of the Government with terms of 4 years. (The reason why fixed period is 4 years is, that appointment of the Governorship should be outside of the influence of any political party).

7. Special privilege: Bond issue with certain proportional ratio restrictions against their capital (and investment?), maximum period of Bonds 50 years.

8. Bank has technical department in which technical experts investigate as well as inspect the factories and mills; the Bank is investigating before as after the investment.

9. Government Loans from the public in shape of Postal Saving in December 1928 was Yen 1,798,300,000. The Government invests part of the money it receives as Postal Saving in 'Industrial Bonds' of the Bank also, when the demand for the bonds with the general public is insufficient.

The 31st January 1931.

The Chairman outlined the procedure he proposed to adopt with regard to the discussion on Dr. Jeidels' note on Industrial Banking. He proposed to finish the discussion on it by Tuesday evening, if not earlier, so that there may be some time left for discussion with Dr. Jeidels on matters not covered by the memoranda submitted to the Committee. He asked Dr. Jeidels to say what other matters he would discuss with the Committee and suggested that the relevant memoranda might be given to the Committee in good time.

Dr. Jeidels said he would submit a note on Exchange Banks and Foreign Trade Finance, and as regards money-lenders he would give a short discourse to the Committee.

Dr. Jeidels then corrected a few typographical errors in the memorandum on Industrial Banking.

Chairman: May I take it that the experts agree with Dr. Jeidels or do they want to ask him any questions.

Mr. B. Currie: On page 2, lines 7 to 10, Dr. Jeidels says—

> "Under the German system the company does not go, as under the English system to an issuing house or to a stock-broker."

The position in England is there are a large number of issuing houses which concentrate in making issues, and banks also have been making issues, for their own customers. But it is a matter of competition, and banks in England have to work through a stock-broker, themselves not being members of the Stock Exchange. They do not go to issue houses. They do it through stock-brokers. Under the German system the banker arranges the whole thing.

Dr. Jeidels: What Mr. Currie says is certainly correct. Banks in England also make issues, but they do it only if they can put the entire risk on the shoulders of under-writing syndicates. They do not take risk, but only lend their name. It is of course very important that they lend their name; with regard to the risk they argue, that it is not in their business. Under the German system—the term is not limited to Germany—banks also form syndicates, but take a more or less large participation themselves and are quite aware that it is their affair to carry the business through.

Mr. Lamond: Do the German banks underwrite fully?

Dr. Jeidels: They take the issue for a syndicate, which in most cases exists already from former similar transactions and take not only a large participation for themselves but also the moral responsibility to carry the issue through under their active management.

Mr. Currie: I would reserve my opinion in regard to the recommendation for adopting the German system. I will give my views in the course of the discussion.

Sir Hugh Cocke: With regard to the 2nd paragraph of this memorandum it is stated that not only block but also normal working capital has to be furnished out of the firm's own initial capital, and before the firm is fit for industrial banking or industrial finance it must have been in operation

for a sufficient period to prove it is strong enough. That I may say I entirely agree with. We have had various witnesses who came before us with the example of an industry started in a small way or companies started in a small way to run a particular industry, and which, after working for a few years with its own capital with possibly some assistance from a bank, decides it must extend and spend further money on block, but has not got sufficient resources of its own to do it. That is the sort of case that has been put to us as suitable for assistance through an Industrial Finance Corporation. What have you to say to that?

Dr. Jeidels: I will answer by giving an instance. Take a company with a capital of Rs. 5 lakhs. If it is a properly established company, of this 5 lakhs 3 lakhs are invested in block, and 2 lakhs is working capital. It is thus financed out of its own capital. Now it wishes to extend. If it invests one lakh, then the ratio of block and working capital, self-financed working capital, would go from 3 to 2 to 4 to 1; the industrial firm which wants to do it and the banker who is expected to put up that one lakh as a bank loan, if they are to act soundly, will both have to be satisfied as to how that one lakh is to be repaid. If it is to be recovered in the opinion of both inside of a year or two, then it may be just an advance. If that is not possible, then both parties have to be satisfied about the character of the capital transaction which is to follow in order to refund that one lakh of capital to be furnished by the bank, whether by the sale of debentures of one lakh or by the sale of debentures of two lakhs in order to put the firm on a really strong footing. In any case, both parties have to be satisfied how that one lakh is to be repaid. If you ask whether the bank can give that one lakh soundly although there is no imminent possibility of repaying nor a plan for future repayment, then I would say it is not quite sound. Such case requires not industrial banking, to use my definitions, but industrial finance.

Chairman: Do you want any more information on that point?

Sir Hugh Cocke: No, Sir.

Chairman: Then, as this is a specific point, in order to expedite business I will ask other members if they have any questions to ask on this particular point and then we won't go back to it.

Sir Purshotamdas Thakurdas: I would like to inform our friends in regard to this point about the mills in Ahmedabad. We have about 60 cotton mills there most of which were actually started between 20 to 30 years back on something like this basis: Capital cost 8 to 10 lakhs; current finance required 3 to 4 lakhs. As against these requirements of capital and current finance, the capital actually raised at the start was 5 lakhs and the balance of capital and the whole of the current finance required was obtained from the public in the shape of six-monthly or yearly deposits the public lending the money on the credit and respectability of the owner concerned. And those concerns, started with this under-capitalisation as you would call it, started without any current finance, have to-day developed into very prosperous industrial concerns with handsome reserves. I would wish to say this—it is my conviction which has nothing to do with the Committee—that if we had been restricted in India to the very correct method indicated in your memorandum, Ahmedabad to-day may not have had more than one or two mills instead of over 60. The question is one

of building up industries in a country in which perhaps some 30 or 40 years back some prejudice existed against industries and certainly many handicaps both from the State and from the public at large. When I say the State, I particularly have in mind—it is well known and accepted—that the State gave no help in bringing industries into existence. The only instance of that I may give is the cotton excise duty. Against all those odds, here are these people in Ahmedabad who have put up 60 mills which are the pride of Gujerat. Those are the facts. Yours are correct theories and what I wish to point out is that our anxiety is to weave the two into something practical. Anyway I thought it would interest you to know that the mills in Ahmedabad particularly, the mills in Bombay to a large extent, and the mills upcountry to-day have all been worked on the lines I gave you and developed into flourishing concerns. I may say that it is only during the last 10 to 12 years that banks, including the Imperial Bank, have even begun to give financial aid to the mills in Ahmedabad. Ahmedabad mills to-day will not give their liquid assets against a loan from a bank. Only a second class mill would do that. And two mills of which I know have as much as 50 lakhs of rupees from the public in the way of annual deposits at rates which would make the Finance Member of the Government of India to-day envious. The rates are from 4¾ to 5½ per cent., and I know that these two mills are refusing deposits. When the Government of India has to borrow at the rate you know, these mills are having deposits thrown at them which they have to refuse. That is our experience, Dr. Jeidels, in regard to industrial development in India.

Sir Hugh Cocke: Did not that expert from Ahmedabad, Seth Kasturbhai Lalubhai, say that now-a-days you cannot get the deposits?

Sir Purshotamdas Thakurdas: That was perhaps true at approximately the date when Kasturbhai said that, but I can give you names of two mills in regard to which I am in a position to know that they have 50 lakhs of rupees in deposit. They used to borrow last year at 6 per cent. for amounts above Rs. 10,000 and 5½ per cent. for amounts below 10,000, and to-day they are paying 5½ per cent., and 4¾ per cent., respectively, for amounts above and below Rs. 10,000. I know that they have had to refuse money which was thrown at them.

Chairman: I shall read out the evidence of Seth Kasturbhai:—

> "Before the war almost all the deposits used to come from the public in Ahmedabad and adjoining rural areas. But after the war some of the industrial concerns in Ahmedabad have flourished and accumulated reserves, and these reserves are now inter-deposited. These deposits by mill companies have taken the place of the deposits from rural areas which have considerably fallen off, due partly to a shaken confidence in their prosperity and partly to the competition of Government. It is said that the Ahmedabad public consider that it is safer to deposit in a mill than with a bank, and this state of affairs is attributed to the business integrity of the people in charge of the management of the mills, who look to the interests of the depositors as if they were bankers. On the whole there has been no reduction or falling off in the total of the deposits received by the mills which have continued steady during a long period of 25 years."

Sir Purshotamdas Thakurdas: That only confirms what I have said.

Mr. Lamond: I can confirm all you have said. The banks did finance one or two of the concerns. It was not to a large extent.

Dr. Jeidels: I think this statement is a welcome beginning of our conversation, because it shows that industries have been started and developed successfully by private initiative. The question I have been concerned with in answering Sir Hugh Cocke is, what should a bank do in those cases. One particularly valuable aspect of Sir Purshotamdas' statement is that these industries have had to be financed not only with their own but with the assistance of other capital apart from banking help. Having referred to this I wish to emphasize that in all I have said and am going to say I am speaking of the present and the future. The past has been, so to say, the golden age of Indian industry, when industries were started by individual enterprise and activity. If I had to review the past I would not for a minute say that the method had been unsound. If one would call it unsound, no industry in the world would ever have been started. In answering Sir Hugh Cocke I am thinking of the present situation and the future to which I look forward, but do not wish to do it without paying a tribute to what has been done in the past. I have attached to this memorandum some remarks about present size and extent of industry in India, because I had the impression that the Committee as such, not individual members, has been more critical of what does not yet exist than appreciative of what has been done in the past. And the picture as it appeared to me from the figures which I have gathered from various quarters, is that a very important industry has been started in the country and developed with the aid of finance not supplied by banks.

Sir Purshotamdas Thakurdas: I said what I did to make the position clearer to you as to how I see the problem before us. I have told you how these industries have come into being, but many more factories and companies have gone to the wall than are existing to-day, and the Indian public now feel that they ought to have a systematic method of financing companies instead of relying upon the personal credit of the management as has been the case till now. Therefore, whenever witnesses before us have said they want some industrial finance, their idea is, can this same finance be obtained for the special purpose of helping industries either with capital or with current finance, as the case may be. Of course mixed up with this is the question of the managing agents and their signatures. You seem to me to recommend in your paper that no assistance can be expected from banks unless the concern starts with its own capital and has been in working order for, say, two or three years. If a set of people wanting to start an industry can do that then of course they could command the credit necessary and they would not require facilities. What we want is when they are trying to build up the industry and want assistance, can you suggest anything which will replace the present, you can call it, haphazard method of financing which has been in vogue till now. That is where I seek your advice very particularly.

Dr. Jeidels: To the question as formulated I cannot offer any advice which appeals to banking institutions. What I recommend is that you should gradually get away from the more primitive system of managing agents and public deposits. This does not mean that you can for a

long time part with the managing agents or with the public deposits. If I may supplement my answer to Sir Hugh Cocke, I would say that if the customer tells the banker, "I expect to get private deposits. I am in connection with some people, but I do not want to wait till I have the full amount required", then the banker ought to have no objection to give the loan. It is not necessary that a firm should be financed exclusively by share or own capital; it may be some other kind of finance, but not a bank loan.

Sir Purshotamdas Thakurdas: May I interrupt? Do I understand that a bank is not justified in refusing to give credit to an industrial company because it has deposits from the public?

Dr. Jeidels: Generally speaking, I do not consider it justified.

Sir. Purshotamdas Thakurdas: I would really like you to think it over. There are banks here who say, because you have deposits from the public, therefore we cannot help you. How do you reconcile that with your opinion?

Dr. Jeidels: I think it would be rather narrow, generally speaking, to say, because an enterprise is not exclusively financed by share capital or by the own capital of the proprietor of the firm, that a bank should not give credit facilities.

Sir Purshotamdas Thakurdas: You would call that a narrow view?

Dr. Jeidels: I would call it a rather narrow view. It depends very much on the circumstances of the case, whether the deposits are all for one year only or part of them two to five years.

Sir Purshotamdas Thakurdas: The average maximum is one year.

Dr. Jeidels: If I were the banker approached in such a case I would try to find out whether the depositors are people who believe in that kind of investment and can be fairly relied upon for extending the deposit at maturity.

Sir Purshotamdas Thakurdas: He deposits because he wants to earn interest.

Dr. Jeidels: The question is whether he is in the habit of getting his interest by this kind of deposit or whether it is for him an exceptional case.

Sir Purshotamdas Thakurdas: He deposits his spare capital and he is likely to renew it unless there is a crisis.

Dr. Jeidels: Although this system of deposits from the public is not usual in the west, it has existed in England, especially in the earlier stages of industrial development. It has played an important part and still does in some industries. Deposits exist in all industrial countries to some extent. The banker sees from the balance sheet the nature of the capital employed, and may find among the creditors such which have the character of these deposits. Apparently the banker regards such deposit as a loan similar to a bank loan. Even against debentures there is a certain animosity on the part of banks here, which I do not fully understand. The debenture is of course much less objectionable from the banker's point of view, because it is long term money while deposits from the public

are comparatively short term loans. If in a country like India, and especially in the province of Bombay, capitalists have the habit of depositing money with industrial enterprises instead of depositing it in a bank or buying Government securities or other kinds of debentures or shares, then I would consider it as an established habit. It may not remain for ever, but it is one of the sources from which industry derives part of its capital; it stands somewhere between the banking credit which is unreliable and short term and the share—or private capital which is permanent. I do not wish to say anything in criticism of banks who conduct their business according to their experience and principles, but generally speaking, if a banker were to ask my opinion I would recommend not to take a too narrow view about deposits; I would not consider deposits as loans in the same class as the credits from a supplier of raw material or from the bank.

Sir Purshotamdas Thakurdas: Would it be correct to affirm that you do not consider this to be a source of finance for industries which necessarily requires to be discouraged, and that if it cannot be replaced by something more useful we should try and keep it up or at any rate that it should be kept up until it can be replaced?

Dr. Jeidels: I think so.

Sir Purshotamdas Thakurdas: I particularly ask as lately it has been the fashion to run this down as a danger to the country.

Mr. Trip: May I ask one question? Do the public who give those deposits keep their money so deposited for a long time?

Sir Purshotamdas Thakurdas: Yes.

Mr. Trip: Has it never been tried to convert those deposits into debenture loans?

Sir Purshotamdas Thakurdas: No.

Mr. Trip: Why should that not be possible?

Sir Purshotamdas Thakurdas: You see Indian depositors of this class are conservative; they like to have their money in a firm which they can get at. Then we have a system of dowry. When a man marries he gives his wife a thousand or two, and that is looked upon as the wife's own money. It is generally deposited in the mills in the name of the husband and the wife, and if anything happens to the husband in between the periods of renewal the woman goes and says "I want to withdraw 500" and the mill agent or manager gives her the money. That is a great facility, and whether it is right or wrong, the fact remains that people instead of investing in Government paper prefer to deposit their money like that at 5 per cent. or so because of the facility with which they can get at it if required.

Chairman: I would like to supplement what Sir Purshotamdas Thakurdas has said by what was said by the representative of the mill interest before us.

"The procedure in the case of new mills is as follows. Out of the 20 lakhs required to finance the block capital, 5 lakhs is raised as share capital and the balance is found in the form of 7 year deposits for Rs. 5 lakhs and one year deposits or the managing agent's own capital for the remaining 10 lakhs."

Therefore, though no debentures are placed, long term deposits are being taken in that particular locality.

Sir Purshotamdas Thakurdas: That refers to a mill company before it has paid anything. The point to be noticed is that the Ahmedabad millowners are evolving their own measures of finance as the people gain faith in the cotton textile industry. That was not the position 20 years back which was what I was telling you about. The above method of finance has been adopted in the case of the few mills put up during the last two or three years.

Sir Hugh Cocke: Might I ask one question? In the Bombay mills in the rather adverse days through which they have been passing have any mills been seriously inconvenienced by the withdrawal of deposits?

Sir Purshotamdas Thakurdas: Very much.

Mr. Shanmukham Chetty: Is there not another way under which the managing agents form a private limited company for the purpose of a managing agency and they take up 75 per cent. of the share while the other 25 per cent. are distributed amongst the shareholders who are called upon to take up say Rs. 5,000 shares and at the same time to make a further deposit of Rs. 5,000?

Dr. Jeidels: I understand that something similar existed in Lancashire and does still exist to an extent. It originally started long ago, when not fully paid-up shares were issued. A man who took up £500 worth of share, paid in £250 and left the balance as deposit which was later absorbed for full payment of the shares.

Sir Purshotamdas Thakurdas: Now let me present the dark side of the picture. In Ahmedabad you have seen the best effects of this system. In Bombay there were the best effects 15 or 17 years ago. Lately, however, in Bombay, the difficulties have been real. When the mill begins to lose, say half a lakh or Rs. 20,000 or Rs. 30,000 a month, its difficulties are great. The Bombay mills may be said on the whole to be losing from year to year. The banker gets uneasy, and the depositor also gets uneasy. The depositor does not renew. The mill seeks assistance from the banks, and particularly as the Imperial Bank is not liberal enough, the trouble starts. The Bank which is approached looks at the balance sheet. It hesitates to finance. It is at this juncture that the system which I have mentioned regarding Ahmedabad should be allowed to continue. Some organisation, either State or private, should stand by such concerns which have sub-strata—I am not talking of those of which the bottom is knocked out—and should give them assistance during a crisis like the one which Sir Hugh Cocke has referred to.

Dr. Jeidels: My general attitude with regard to the two institutions which are at present essential for a large part of Indian industry, namely managing agents and public deposits, is that industry ought by and by to get away from them. They have somewhat outlived their function. If I put myself into the position of an industry started 20 years ago with deposits and the deposits still form part of the finance and represent practically the entire working capital, then I would be rather afraid about the deposits. From year to year I would have felt more uncomfortable and would have looked for opportunities to replace this kind of finance. It can be done in several ways. I would wish that the mills ought to

have done away with the deposits at an earlier date—this is an observation, not a criticism—they certainly ought to do it in future whenever they get some more reliable finance.

Sir Purshotamdas Thakurdas: If they can and when the opportunity offers.

Dr. Jeidels: Yes, for all financial transactions, the time has to be well chosen. Without a sympathetic banking system, which gives the advice and carries it out it is rather difficult to get rid of the deposits.

Sir Purshotamdas Thakurdas: Would you think that the views of the banking organisations here can be sympathetic?

Dr. Jeidels: If you will allow me, I will picture to you a conversation between a banker and a millowner in Ahmedabad. The banker is always in touch with his bank because he takes overdrafts, makes remittances, etc. The banker would take some opportunity to ask: "How is your financial situation generally? Are you still financed by deposits? What is your experience; are they always renewed"? He may receive this answer, "They have practically all been renewed, but more recently, owing to more attractive possibilities of investment or for other reasons, some gave notice. I cannot rely on it as formerly". The banker is not satisfied with the answer; he continues: "Let us think of some way to get rid of these deposits, at least those which may become dangerous. What about a debenture loan? At present", the banker continues, "I do not see much possibility of floating it, but let us prepare it. Make up a memorandum on your mill and sketch on this new financing. Can you from your own pocket increase by a little your share capital?" The customer may answer "yes (or no.) But try to make a market for these debentures." The banker: "It is not possible now but may be in a few weeks from now. Let us make the plan for it and come to an agreement". The banker adds one more suggestion: "Your business is large enough to justify a debenture loan of 10 lakhs, but of these we only issue half, *i.e.*, 5 lakhs, which is enough to get rid of most of the depositors. You reserve the other half for a later time and may be able to sell them on better terms. Let us now arrange the terms for an eventual sale inside of the next three months". I have given you one conversation, and could, of course, invent a number of others.

Sir Purshotamdas Thakurdas: Let me now give the reply. I am not aware of any Bank Manager who has taken that sympathetic interest as your conversation suggests. That is all I can say.

Dr. Jeidels: And I may reply that this is just what I suggest the banks should be encouraged to do with regard to industrial finance. It is practically the system in which I live; it is a specimen of sympathetic attitude.

Mr. Lamond: What about the other depositors? Depositors in the mill would not be prepared to have worse security than debenture holders.

Sir Purshotamdas Thakurdas: All the requirements have to be secured in debentures.

Mr. Lamond: All the deposits.

Sir Purshotamdas Thakurdas: Yes, the total amount required; otherwise you undermine the security of the balance of the deposits.

Chairman: If there are 10 lakhs, and 5 lakhs are first issued in debentures leaving 5 lakhs deposits. That is Mr. Lamond's point.

Sir Purshotamdas Thakurdas: I understood it this way, that the Manager might try and say, "if he floats 5 lakhs, he will give refusal to the Bank for the other 5 lakhs" I thought that Dr. Jeidels said that.

Dr. Jeidels: Yes.

Chairman: Float 5 lakhs debentures immediately and practically carry forward the other 5 lakhs and issue debentures later on.

Lala Harkishen Lal: In practice the security of the depositor does not decrease, because the deposit is for one year while the debenture is for 5 years, 10 years, or 15 years. The depositor comes and takes his money at the end of the year and changes the money into something else or gets security. It only decreases if the chances of its being renewed or re-invested are absolutely gone. As a matter of fact, in the Punjab, in several liquidations the liquidators themselves settle these things first.

Mr. Khaitan: These deposits that are made to the mills in Ahmedabad provide partly for what is called capital debt and partly for working capital. You have given us the gist of a conversation that takes place for the floatation of debentures. I take it that the debenture loan would be required to the extent that a capital debt is required. But in regard to working capital, perhaps the Bank Manager would agree to advance a loan from his own funds on the security of the liquid assets of that factory, because that would be looked upon as good cover.

Dr. Jeidels: I think so. Of course the conversation which I invented between the banker and the customer did not last five minutes but half an hour and it contained much more. Mr. Lamond asks: if you choose to pay off 5 lakhs deposits, what about the other 5 lakhs? My answer is, that the mortgage for the debenture loan covering the full amount of the deposits, those depositors who are not repaid can share the security of the debenture-loan. Now Mr. Khaitan enters the field and the banker answers him thus: "If we agree on principle on the issue of debentures, of which we hope to place soon. In the meantime, you may be quite assured that you will not get into difficulties if some of the depositors give you notice".

Sir Purshotamdas Thakurdas: In other words, the bank offers to put its shoulders to the wheel.

Dr. Jeidels: As the customer has arranged for the financial transaction to liquidate his bank-loan.

Mr. Manu Subedar: This rests on a foundation of sand.

Mr. Rushforth: Supposing your banker and your millowner have agreed that this is very desirable and that 5 lakhs shall be issued. I understand that the bank itself does not take up any of these debentures?

Dr. Jeidels: Not at the moment.

Mr. Rushforth: The prospectus will be issued and on that prospectus will be put the name of the Banker—the Chartered Bank of India. How will that ensure the issue of the debenture loan being any more successful than what actually happens now?

Chairman: This Bank will approach at that stage a firm of stock brokers and will try to arrange with them for the issue of the debentures. That is the idea?

Dr. Jeidels: If a bank brings out a prospectus for 5 lakhs, it will try to find privately some investors who take 2 or 3 lakhs so that the success of the issue is practically assured.

Mr. Rushforth: The Bank itself would make endeavours to find subscribers?

Dr. Jeidels: Yes.

Mr. Rushforth: Do the bankers take any active part in finding subscribers in other countries? In India they do not. Their name goes on the prospectus and that is the end of it as far as the Bank is concerned.

Mr. Currie: In England the stockbroker is responsible to furnish subscribers. He arranges with people who are likely to be interested.

Mr. Rushforth: Dr. Jeidels' main point is that the banker should take a more active part in securing public subscriptions.

Dr. Jeidels: Yes.

Lala Harkishen Lal: I know of a very recent case the history of which is this. The formation company took a contract of building a mill in India for a certain Bank. They put in some money, took some shares and started building and ordering the machinery. The concern then came to a standstill. They went to some people in England, now called the guarantors, to find the money and they found the money in a way that they made a promise that at a favourable rate they can issue debentures. Meanwhile, on that promise of issuing debentures, they got an agreement from this Indian Company that the Indian Company on that occasion will be prepared to issue debentures. On this promise they went to an English Bank and that Bank advanced them a great deal. When this formation company were in difficulties—sums of money now amounting to 30 lakhs—the formation company has put up buildings and has bought machinery—this formation company applied to the Bank who had advanced this money and also to the guarantors, but the money was not forthcoming. The Indian Company came along and found the money exactly as you said long before 2 or 3 years ago as working capital on a certain margin. Something happened and the company came to a standstill.

Dr. Jeidels: I am not surprised.

Lala Harkishen Lal: I am not surprised either. The Indian Company has got sufficient liquid assets. This experienced very old bank does not know how to recover the money from the property of 30 lakhs. The case is still pending and several people are interested in it. What advice would you give?

Dr. Jeidels: A case like that I would not have recommended to an Indian Bank.

Lala Harkishen Lal: But there it is.

Dr. Jeidels: The Bank will probably say, and so do I: "Never do it again".

Lala Harkishen Lal: They have done that many a time. Would you kindly tell us something about this. There used to be a Stinnes. Would you kindly tell us about their banking and their enterprise?

Dr. Jeidels: It was an exclusively industrial firm.

Lala Harkishen Lal: How did they get their banking?

Dr. Jeidels: It got their bank loans against collateral of shares.

Lala Harkishen Lal: Not on bricks, not on hotels?

Dr. Jeidels: No. When this big concern failed in 1925, the liquidation lasted only about 4 months and no creditor lost a penny. The reason was that the firm had got all their credits against security in shares.

Lala Harkishen Lal: Is it the case that several of their concerns were floated into separate companies and the flotation brought their own security?

Dr. Jeidels: The loans were against rather liquid assets.

Lala Harkishen Lal: The liquidation was quick because a dozen banks all joined to get this liquidated in a few weeks. It means they put in their money where your opinion would have advised them not to.

Dr. Jeidels: You will find cases in which the banks have to take over the property, that is brick and iron and steel. But in this case all loans were against collateral, all elastic securities, which were sold inside of a few months.

Lala Harkishen Lal: Do you know that many new countries which are new under the war arrangements have started industries or industrial life under a very different system from what you are advocating?

Chairman: I was about to bring that point to your notice because you have been telling us about German banking, but as Lala Harkishen Lal has referred to it and said that he has not got any literature and as I happen to possess some literature, I shall quote to you from that literature to elucidate what he has said. This is an article in the Economist Hungarian Supplement of December 20, 1930, by Dr. Tibor de Scitovszky, former Minister of Foreign Affairs, General Manager of the Hungarian General Credit Bank. There are circumstances here which fit in with conditions in India at the present day. I will only quote to you the relative portions:

> "The principal Hungarian banks have, from the very beginning, taken a leading part in the industrial life of the country. This is due, above all, to the fact that Hungary was always short of funds and that private individuals with adequate supplies of capital were not forthcoming in sufficient numbers to take the lead in establishing industrial undertakings. The principal banking institutions, however, had greater capital resources"

of course that may not be applicable to India at the present day,

> "and were in a much better position to market the shares of the leading industrial undertakings. This situation was, of course, very similar to that prevailing in Austria and in Germany".

That is what puzzles me.

> "In consequence, the large Hungarian banks became both shareholders and creditors, a combination which implied a very wide measure of influence and control in the nascent industrial undertakings of the country."

Then it goes on:

> "Industrialisation would make the country less one-sided, by diminishing its exclusive dependence on agriculture—a factor of the very greatest importance in view of the unfavourable world outlook for agricultural produce—it would strengthen the home market, improve the trade balance, and reinforce the very basis of the public revenue."

It goes on:

> "The banks came to participate more and more in industrial companies and also placed industrial shares, both at home and abroad."

That is what you advocate. Then comes the end:

> "The wisdom of this policy of co-operation between banks and industry has been confirmed by the endeavours recently made in Great Britain and France with the same end in view. Even in these highly developed countries, where development has been on entirely different lines, the need for the banks to take more active interest in industry has been recognised in these hard times."

I shall hand over this article to you. On reading it as it appears, it seems to me that the activities of banks have been directed not only to placing shares and debentures in the market but also "in becoming" to quote its words "both shareholders and creditors".

Dr. Jeidels: I shall speak about banks industrial shareholdings on the back of the paper from which you have read, balance sheets are printed; you can read in these how far the banks do it. They can certainly do it only inside of a limited part of their capital.

Chairman: It may be a limited part. We have heard other people's views on the subject. It is not so much a limitation of the amount as the principle.

Dr. Jeidels: What you have read is so nicely put that, had I known it, I might have quoted it in my memorandum; it means practically the same as my statement. It must not be misunderstood as meaning, that this bank opens a factory of its own and takes the shares or opens a coal mine and takes the share; which again does not mean that a bank never does it. In the first stage the bank should help more by advice than money, in the second stage more by money than advice.

Chairman: That may be so, but as it is I was quoting from the passage. It begins by saying that "private individuals with adequate supplies of capital were not forthcoming in sufficient numbers to take the lead in establishing industrial undertakings".

Dr. Jeidels: This is quite true.

Chairman: Then it goes on to say that banks had capital resources and they made these capital resources available. It may be that banks in India had not got those capital resources, if so the circumstances will be different. Then it refers to the fact that large Hungarian banks became both share-holders and creditors, and reading the statement as it stands of the General Manager of the Hungarian General Credit Bank, I can only take it to mean that the bank provided the initial capital required for establishing industrial undertakings. It is precisely that which you do not advocate. Then the statement goes on to refer to what has been

happening in Great Britain and France in similar directions. What that is, I confess, I do not at the present moment know, though I think we have managed to collect some information on the subject but all this, if I may say so, is in conflict with what you have said. If I have understood you properly, your view is no doubt the orthodox English view, that at the stage of establishing an industrial undertaking it is the shareholder who should produce the capital and that capital should be adequate and at that stage a bank must not come in. A bank can come in later on to help to place its debentures or to provide working capital against liquid assets, etc., but according to this article they have been doing quite a different thing. It says that this situation was very similar to that prevailing in Austria and in Germany and that the same thing is being done in Great Britain and Germany. I think, Lalajee, that is what you were referring to.

Lala Harkishen Lal: This is only Hungary, my literature covers about 50 countries.

Dr. Jeidels: I think we must take an expert from Hungary to examine what he has to say and what the author of the article means about the policy of the Hungarian banks. There are cases where a bank takes shares in the early stages but it is an exception to the rule and ought to remain an exception. If the banks of this country would make it a rule or even make some exceptions of the rule as I stated it I am afraid the result would be disastrous. If banks sometimes engage upon such business they can only do it inside of narrow limits. It would be useful, if we had a practical case before us. If somebody came to the Hungarian bank and explained his intention to start a soap factory, having sold soap as merchant and now wishing to manufacture himself, you may be quite convinced that the bank would not participate in the formation of a company for this purpose. If the matter appeals to the bank, if it is a customer and well known to the bank, it may try to help him along; the bank may have a chemical factory as clients, manufacturing raw material for soap makers. The bank may sponsor the new enterprise by sympathetic advice in the hope of seeing an industry developed for the benefit of the country. Please do not believe that in banks starting new industries you will find more than exceptions to the rule, and such exceptions cannot be often repeated by the same bank. Stock companies as you know do not frequently come into existence as new enterprise; generally it is private enterprise turned over to a joint stock company with the intention, at the same time to enlarge with some participation of the public, with some outside finance. What I wish to impress upon you—and this is the tenor of the memorandum—not to believe everything what you read and hear on banks' activity in starting new industries".

Chairman: Therefore, your advice to us would be to ignore what has been written by this eminent gentleman who, I find here, is the General Manager of the Hungarian General Credit Bank which undoubtedly as it stands gives one the impression that even at the stage of the establishment of industrial undertaking it has been the custom for the principal Hungarian banks to provide a part of the capital either shares or advances. I believe this is one of the banks which was started after the war?—It is one of the old banks.

Chairman: Was it thereafter reorganized under the auspices of the League of Nations?—No.

Chairman: My own recollection is that the whole of the finances of Hungary were re-organised under the auspices of the League of Nations—Not the banks.

Chairman: According to the statement of the General Manager of the Hungarian General Credit Bank (I am not concerned whether the policy is good or bad, I am placing before you facts) it has started that policy. We have heard a good deal about this question of post-war continental arrangement from various people. If you have read the evidence, you must have seen a rather lengthy memorandum on the subject of certain Hungarian banks which was placed before us by a gentleman who was at a certain stage connected with one of these Hungarian banks. That is all in the evidence, but here is something from the General Manager of, what you admit is, one of the principal, strong and stable Hungarian banks.

Mr. Shanmukham Chetty: You read an extract from that paper to show that at least in the case of one great Hungarian bank they departed from what Dr. Jeidels wants us to believe in this memorandum to be the orthodox and the best and ideal method of starting industrial concerns. If I have understood the tenor of this memorandum correctly, he wants us to get rid from our minds of the misconception that in Germany banks finance industrial concerns by way of subscribing to share capital in the initial stage—Exactly.

May I ask you just to let this Committee know what is meant by the *simultan Gründung* in Germany?—It is one of the legal forms, in which a joint stock company is established.

It is one of the methods by which an industrial concern is started. Now when it is started under this method, is it the practice in Germany for banks to take the initial capital?—No, it is not.

Here is a book called "Joint Stock Banking in Germany" by Mr. P. Barrett Whale, published by MacMillan and Company. On page 42 it is said: "The use of *simultan Gründung* means, therefore, that company promotion is the affair of the larger banks and bankers".

Again on page 40:

> "But where it is intended to place most of the shares amongst the public, the greater part of the capital is usually provided in the first place by one or more large banks or bankers—the remaining promoters possibly contributing only the minimum sum for one share each".

Again on page 38:

> "The point of importance to be noticed here is that the average German firm has always depended to a remarkable degree upon obtaining current account advances, and that not merely to provide itself with working funds but also for the purpose of extending its permanent equipment (construction of buildings, acquisition of machinery and the like) in anticipation of recourse to the investment market".

I am very much interested to know, to enable the Committee to understand the book, how to reconcile these passages which I have read with the statement that you have made and the position you have taken up in this memorandum.

Mr. Manu Subedar: And the counsel of perfection which you are giving to India.

Dr. Jeidels: There is a difference between establishing a private industrial firm and the formation of a joint stock company. Take the soapmaker who has opened and developed a factory; it is in successful operation. A private company does not allow sufficient outside financing for further development to satisfy the ambition of the owner. He transforms his existing industrial enterprise into a joint stock company and the joint stock company's securities are floated in the market.

Chairman: My point is different. I have already quoted to you the very precise statement that in Hungary private individuals with adequate supplies of capital were not forthcoming in sufficient numbers. Therefore I cannot from that statement myself follow the position you have indicated. A private individual starts a concern and when he has not got finance, *i.e.*, when he is short of capital, he converts it into a joint stock concern and then something else happens. If I may say so, that does not follow from the wording of this sentence—but neither is it in contradiction.

Chairman: I really do not know; in fact that remark refers to what Mr. Chetty read out about a joint stock concern. It is also the expansion of the Hungarian example.

Dr. Jeidels: The solution of what seems a contradiction between the various statements on the table, is that normally an enterprise is not started as stock company with public participation but that it first develops in private form. I do not think that Hungarian or German banks have with some exceptions which I shall mention later—started new industrial enterprise and participated in it. Industrial joint stock companies in which banks participate somehow, as a rule carry on existing and do not represent new enterprise. Industrial and similiar business of a large scope will before long realise that the private resources of the proprietor will not be sufficient. Whether it is suitable for a joint stock company, depends on size, past record and prospects which must warrant to take anonymous partners into the business. If those requirements are fulfilled, banks take sometimes a limited share interest in the new company, but I must insist that, with quite a few exceptions, it is not starting of new industries. It is not as popular opinion pictures it, that one starts with selling shares of the stock company, then buys the factory site, bricks, steel and so starts an enterprise. In reality in those cases which can be a field of activity for banks of the Continental European type business starts first and when sufficiently developed it might be fit for outside finance, for taking in anonymous partners and eventually a bank's assistance. This is what Prof. Barrett Whale has stated and that is what the Hungarian bank has in mind.

Chairman: It is slightly different. I shall still pursue the matter. Is it your proposition that not at the stage of the initial establishment of the industrial undertaking but at a subsequent stage when it requires additional funds to keep it going or for the purpose of extension you would not object to a bank coming to the assistance of that industrial undertaking.—I would object to a bank doing it, which has never done industrial finance business before. If a bank intends to start in industrial finance it certainly ought not to begin with business of this kind.

Mr. Manu Subedar: Is your bank therefore giving advance to an industrial concern for block purposes as well as for working capital?—We would not give for block purposes.

Mr. Manu Subedar: You would give all the money for working purposes—You cannot make this distinction.

Mr Manu Subedar: In the memorandum you have stated here that a joint stock company should start with enough money to put down all the special machinery, block and also most of the working capital which it would require. Is that so in Germany?—I did not say joint stock company, I referred to industrial enterprise.

Mr. Manu Subedar: Taking industrial enterprise, is that so in Germany?—Yes.

Mr. Manu Subedar: It finds all the block and the working capital?—It has to find the block and the working capital.

Chairman: If this industrial enterprise, instead of being a private firm, were a joint stock company, then would banks in Germany provide it with additional capital for block purposes?—Referring again to the case which Sir Purshotamdas put before us, I can only say that if a bank wished to furnish money for the block, it could only be by taking some shares not otherwise. The block has to be financed by shares if it is to be sound.

Chairman: Or debentures?

Dr. Jeidels: By taking up shares or debentures. It is done in many countries, not only in Germany and Hungary. It is done with a view to appeal to the investment market. In the memo. I have explained at length that the capital market which waits for this transaction is an essential condition for at all entering upon it. It must not be tomorrow, but in the near future. Industrial transactions, financial transactions on the part of banks in Germany are at present very small owing to the lack of a functioning capital market.

Mr. Khaitan: The question which arises for practical consideration is this. Supposing the circumstances you have enumerated under which industries should develop under ideal circumstances, supposing it has been put to us by expert witnesses who know the conditions of the country that it is not possible in India for industrial development, then would you advise the country to remain stagnant or have you any constructive suggestion to make whereby industrial development can take place in this country?

Chairman: This can be pursued after lunch, because it is already past one. You may repeat the question after lunch. This is a most important matter.

The Committee adjourned for lunch till 2-30 P.M.

The Committee re-assembled after lunch at 2-30 P.M.

Mr. Khaitan: Would you give us your ideas as to what a perfect system would be as regards the relationship between banks and industries? Suppose some expert witnesses have given us their opinion that that system would not be possible for India if India is to advance industrially, then have you any real constructive or practical suggestions to make as to what method India should adopt for the purpose of advancing industrially.

Dr. Jeidels: Let us understand each other. Gentlemen, I cannot recommend for India any method which is not in use in some part of the world with a longer record of industrial development than India, any

method which has not been tried and approved because it is very dangerous to develop industry on new and original lines if there is no full assurance that they are really absolutely good lines. I venture to say that there is no field of capital investment in which so much money can be lost as in industry. Therefore I cannot recommend anything which is not more or less approved in the rest of the world. This is the negative side. On the positive side, in reviewing the various possibilities and systems in use in the world, I arrive at the opinion that a sysem of banking with regard to industry similar to that which exists on the Continent of Europe, which exists now also in the United States, and as it is developing also in England and other countries, that such system ought to be built up in this country too; that it should be built up on the existing banking institutions; that it ought to be built up slowly and systematically, because only systematic development will avoid the great losses which are inherent to this line of business if it is done hurriedly or prematurely. All my remarks and statements are made with this practical end in view.

Mr. Khaitan: Unfortunately, Dr. Jeidels, we find that the views expressed by you as regards conditions prevailing in some other parts of the world and even in your own country do not quite agree with the views we have found in books. I do not mean to trouble you about that, but there is that discrepancy. What I want to know is that if the perfect system, according to you, cannot be adopted in India for the development of industries, would you rather allow India to remain stagnant as regards the development of industries than adopt new lines of banking? That is, you would not advise India to adopt such new lines, which are new lines according to you but which according to the books are not new lines?

Dr. Jeidels: But I am sorry to have to trouble you, Mr. Khaitan, with it. You were good enough not to wish to trouble me with quoting the literature. All that you find in descriptions of various systems you have to scrutinise carefully. The descriptions which you find, contain details of a fully developed system, and a fully developed system at its most favourable stage; fully developed in two ways: one is that the banks have developed that business, have gathered experience.....

Mr. Khaitan: If you will excuse me, I do not want to take up your time. . . . .

Dr. Jeidels: But I have to take up the time of the Committee because this is, so to say, the residue of this morning's discussion which I have to get out of the way. What you read in all these books, is a description of the stage of highest development of banking policy. But that has in every country been built up slowly; when fully developed it shows a number of forms of business with industry, which have gradually evolved and which cannot possibly be adopted straightway from the start. In developing particular line of policy for a number of years, other subsidiary lines of business may emerge out of the main scheme, but these should not be adopted separately. The other side of the picture is this. That this bank policy of industrial finance requires a perfectly operating capital—and investment market. Even in countries where the methods of industrial finance are developed by the banks to highest perfection, they do not function where the capital-market does not respond. For instance in Germany, which originally gave the name to the system it is at present cultivated only to a very small extent because the capital-market does not respond.

Now with regard to your precise question; you said, if Indian industry cannot be developed on the lines suggested by me, do I want Indian industry to starve and would I be satisfied to have no industrial development? That is why I have attached a paper to this memorandum which is more a piece of political economy. Fortunately the assumption from which you start is, I believe, quite wrong. Indian industry has developed and is developing; it is not in such an unsatisfactory state as one might assume from part of the printed material which this Banking Enquiry has collected. The number of joint stock companies in this country is 5,700. These companies represent a capital of 276 crores. Statistics show that every year quite a number of new companies is formed. Some industries in this country are on the highest possible stage of development, and every body who comes to India to examine the position must admire the quality and high standard of some of its industries—and this in a mostly agricultural country. All that has practically been done in the last 30 years. Therefore I think the assumption is not correct that if no special recipe can be prescribed then industry will starve. I think industry in this country will develop and ought to develop in accordance with the economic conditions and possibilities of this country and the rest of the world. We are not living in the golden age of industry and industry has had many set-backs in all countries. Indian Industry will develop and the next 10 years will show much further progress. Indeed I believe that the progress of existing and the birth of new industries will be stronger and sounder if there is co-operation between industry and the banks. Such co-operation, I think, is lacking. What I have suggested in this connection may appear unsatisfactory to those who expect the millenium, but I think it will be useful and productive and I think it will work.

Mr. Khaitan: As regards the co-operation you have just mentioned, how is the co-operation to come about? If you look at page 4 of your statement you have classified the several kinds of banks. You say, "Exchange Banks are generally indifferent or adverse—". I would not say "adverse" because Mr. Buckley might complain.

Dr. Jeidels: I did not mean it in the sense of "hostile"; please say "averse".

Mr. Khaitan: "Exchange Banks are generally indifferent or averse". So we have to give up the Exchange Banks. Then, "Among the Joint Stock Banks there are very few large enough to be capable of this class of business". Even those large enough are as you know "indifferent or averse". Then comes the Imperial Bank. We know that the Imperial Bank has its eyes more on exchange business than on industrial finance. That disposes of the banking institutions in India. Then between what banks and industrialists is to come the co-operation?

Mr. Lamond: Is that quite a correct statement? The Imperial Bank has not declared its policy.

Mr. Khaitan: We have seen several statements of Managing Governors that if the restriction was not there they would have taken to exchange business. We have still to hear from the representative of the Imperial Bank sitting in this Committee that the Imperial Bank is prepared to take up industrial financing business. I do not want to draw Mr. Lamond, but so far as we know the Imperial Bank has not got its eyes on industrial finance. I do not doubt that they open cash credit accounts for some industrial concerns, but that is a different class of business. Then where

are the banks with which we are to have the kind of co-operation so eloquently suggested by you established?

Dr. Jeidels: I have given the answer which you have not accepted—the Imperial Bank.

Mr. Khaitan: But the Imperial Bank is a bank owned by shareholders; it is governed by a Board of Directors; then there are the Managing Governors or some kind of Central Board. They may or may not choose to adopt it. You have assumed that they will.

Dr. Jeidels: It is not for me to decide it.

Mr. Khaitan: Assume that they will not.

Dr. Jeidels: I cannot assume it.

Mr. Khaitan: Suppose for the sake of argument that the controlling authorities of this institution decide that they are not going in for industrial banking business.

Dr. Jeidels: It would create a rather queer situation. Then only a new Joint Stock Bank, an entirely new institution, would be able to do it. But I do not even know whether there is an inclination in this country to form new banks which would do the business on the lines which I consider the only possible ones. I doubt whether there are parties with sufficient enterprise, parties and money to form a new institution for this kind of business, keeping in mind that the existing institutions are entirely at freedom to develop the same kind of business which the new institution would wish to develop. I do not think that a special institution is very well fitted for it. One may draw the various classes of investment trusts into the discussion. I do not know whether investment trusts or some other special institution for this line of business can be built up; even if it could be done, I still would find a lack of some element in it, the practical business element, an element of caution, which the banks would supply. Of course, it is, I agree, a matter of opinion. I think that private banks, sufficiently strong, are a very good medium for developing it. A special institution is quite a different matter; we will have an opportunity to discuss such an ideal special institution.

Mr. Khaitan: But with regard to the special institution you seem to be under the misapprehension that the supposition is that that special institution would only advance against block. Perhaps that is not quite correct. A special institution may be authorised, according to your advice, to take part in commercial banking, to advance money against liquid assets. I do not know whether you have looked into the report of the industrial commission. The industrial commission has recorded its opinion that if an industrial bank is to be started for some years at least they should be allowed to do commercial business as well.

Dr. Jeidels: You confirm what I say. If it was to be a new bank it would not have to devote itself principally to foreign trade financing nor to the trade of a certain part of the country, but it would have to be from the start a regular bank, taking deposits and conducting other banking business, but attaching more value to the industrial side, and specialising somewhat in it.

Mr. Khaitan: Not simply industrial finance but industrial banking as well?

Dr. Jeidels: Not only industrial banking, Mr. Khaitan. Industrial and commercial banking. If you want a mere industrial bank it is not difficult to predict that it would be bankrupt very soon.

Mr. Khaitan: Why are you taking that as a hard basis which cannot be melted, namely that an industrial bank cannot be authorised to do commercial business as well. It can be allowed to do all the three kinds of business.

Dr. Jeidels: We are now a step further. You say, if none of the existing banks is prepared or capable of cultivating that kind of business, cultivating it to the final perfection which you find in the books, then why not start a new bank. But such bank must do general banking business.

Mr. Khaitan: Certainly.

Dr. Jeidels: If you start it as a specialised institution for industry alone, take my warning that it will not last long. It must be comprehensive in the sense that you have to take small and big accounts, commercial accounts and agricultural accounts and all kinds of general banking business, but right from the start having a watchful eye on everything connected with industry. That watchful eye must also be a very cautious and careful eye. What you say is this: a change of policy of one or other of the existing banks is practically an impossible process, it will not work; we therefor better start a new bank and if the new bank drives others by competition into the same field, so much the better. I have tried to follow Mr. Khaitan to the full consequence, to which I do not subscribe and which I do not dispute. This is my answer.

Lala Harkishen Lal: One thing which I should like to know is in regard to the appendix which you have added on "Some figures on the present state of industrial development in India".

You say that industry like cotton, jute and tea gardens has developed on a large scale. The resources of India are not confined to these three.

Dr. Jeidels: Take Statement No. 2.

Lala Harkishen Lal: I am referring to para. 2 under "Some figures on the present state of industrial development in India".

Dr. Jeidels: Quite so.

Lala Harkishen Lal: You have considered these three.

Dr. Jeidels: I have only mentioned these three, but have considered more. In the statistics you find all; I used the word "like", but should have said "for instance" or "principally"; please read it as "such as".

Lala Harkishen Lal: I should like to know your opinion now about certain other industries, whether other industries with regard to size and quality match corresponding industries in western countries. I will give you the industries. Oil seeds. We have plenty. Have you discovered that our oil industries, vegetable oil industries, are on a par with these, cotton, jute and tea gardens?

Dr. Jeidels: There are many finely developed industries in India.

Lala Harkishen Lal: Is that industry developed, the size and quality matching corresponding industries in western countries?

Dr. Jeidels: I suppose it is.

Lala Harkishen Lal: You have not looked into it.

Dr. Jeidels: It has not been my business.

Lala Harkishen Lal: I want to know the fact. Why don't you say "I have not had time to look into it". We did not impose any conditions to study all the industries. I am asking whether you have done it.

Chairman: He mentioned one industry, the oil industry but there are others. All he wants to know is whether you have studied the conditions of those industries also.

Lala Harkishen Lal: Oil seeds, timber, iron ore, hydraulic power, hydro-electric power, coal, minerals, sugar, leather, sand and clay, fruit and fruit industries, fibrous industries. If you have not considered, say you have not. What do you think of those?

Dr. Jeidels: Do you ask me, whether I can give you a special opinion on certain industries which you have just named?

Chairman: All he wants to know is this, whether in making this statement you have considered the conditions prevailing in the industries mentioned by you or also the industries mentioned by Lalaji.

Dr. Jeidels: I have mentioned the largest ones.

Chairman: I am very sorry. If you say you will not answer, we will take it down and be done with it. Dr. Jeidels is not willing to answer the question.

Dr. Jeidels: I have answered; I have mentioned the three largest ones.

Chairman: You do not say whether you have considered the others or not. That is the point on which Lalaji wanted to know.

Dr. Jeidels: I have considered them, they are contained in the table.

Chairman: I am very sorry; it is not the question of the table. The statement made here is this. (Read paragraph 2 under the heading —Some figures on the present state of Industrial development in India). It is a question of fact. It is open to you to say yes or no. I simply wanted to get the position clear. He has no other intention.

Lala Harkishen Lal: I just wanted to know whether we have not on the whole so well developed as might be in these three industries and therefore a big field remains undeveloped. That is the real object. I know a great field remains undeveloped in several directions. I wanted to know whether Dr. Jeidels looked into this matter or not. Let us leave it at that. He does not want to answer that.

Mr. Manu Subedar: In this case Dr. Jeidels represents all the other experts. May we know whether the other experts have something to say?

Mr. Cassels: I think the answer is being given by Dr. Jeidels.

Chairman: If any other expert wants to express an opinion, he would have said so. As nothing has been said, there is no use putting that question in every case.

Mr. Manu Subedar: They are unwilling to reply.

Lala Harkishen Lal: There is one aspect of the figures that you have quoted with regard to shares and debentures and so on. I wonder whether your attention has been drawn to joint stock companies' debentures as published in the 'Capital' from week to week.

Dr. Jeidels: I have made a summary of the debentures quoted in the 'Capital'. The aggregate amount is 11 crores.

Lala Harkishen Lal: It is only 11 crores and not more?

Dr. Jeidels: No, as far as industrial debentures are concerned.

Lala Harkishen Lal: Joint stock debentures?

Dr. Jeidels: I think so; 78 different debentures to the aggregate amount of 11 crores.

Lala Harkishen Lal: That is not a very big figure. Have you enquired whether these debentures are partly or wholly held by the banks in Calcutta?

Dr. Jeidels: No.

Lala Harkishen Lal: You said that a banker might sometimes have a conversation with his client and come to the conclusion that debentures may be issued. May I ask whether you would add the words "bank acceptances" also?

Dr. Jeidels: Of course I do not include them.

Lala Harkishen Lal: In my last visit to Germany I wanted to get machinery from Germany and I asked whether they would give it on credit. They told me if I could get acceptances from respectable banks in India, they would be quite willing.

Dr. Jeidels: How long acceptances?

Lala Harkishen Lal: 3 years.

Dr. Jeidels: That is not bank's acceptance.

Lala Harkishen Lal: They wanted me to produce bank acceptances.

Dr. Jeidels: Which is as good as cash.

Lala Harkishen Lal: Evidently they would be familiar in Germany with that kind of transaction; otherwise they would not ask.

Dr. Jeidels: No. The bank acceptance is an instrument of the ordinary banking credit and not an instrument of industrial finance.

Lala Harkishen Lal: Would you allow that imaginary gentleman with whom you had conversation and who was in difficulty in raising debentures to draw bills to raise capital?

Dr. Jeidels: No, certainly not; by no means.

Lala Harkishen Lal: I was myself asked in Germany by a very respectable and very highly developed concern that if I produced acceptances of a respectable bank they would give me credit for 3 years. Evidently from that I inferred at the time, and I have inferred now, that that kind of finance was also well known in Germany.

Dr. Jeidels: It is not known.

Mr. Shanmukham Chetty: In your memorandum on the first page you say "Not only block but also normal working capital has to be furnished..... .....strong enough". With reference to this sentence, I want to ask you when a new industry is started in Germany how many years after the starting of the industry does that concern go to a bank for finance?

Dr. Jeidels: It is very different. It should have been in operation at least one year so that one has a year's record. One year is the shortest period, which includes all seasons; it may be a seasonal business which is very good in summer and bad in winter. You may say that 12 months is the proper minimum record that an enterprise ought to have.

Mr. Shanmukham Chetty: One year in some cases would be a sufficient period to prove that the industry is a strong one?

Dr. Jeidels: Yes.

Mr. Shanmukham Chetty: What do you mean by speaking of normal working capital?

Dr. Jeidels: The ratio which is different for the various classes of industry. One has also to consider the average price of the goods handled. If a cotton company was started at a cotton price of say 20 American cents. for the pound, you could not expect the cotton mill to be supplied with its own working capital on a price basis which is 40 per cent. above the average of the last decade. The mill would make a mistake in establishing its capital on such basis, because it would have to pay dividend on an enhanced capital. The working capital can assume normal or even low prices; there is no objection to supply the remainder from bank loan. The ratio is very different for various industries.

Mr. Shanmukham Chetty: I do not know what ratio you are thinking of. Take for instance the existing price of cotton and commodities at this time. If I wanted to start a cotton mill, what will be your criterion to enable you to judge whether I have got the normal working capital from my shares?

Dr. Jeidels: An accountant or an experienced banker or your own business experience would certainly be able to tell you.

Mr. Shanmukham Chetty: For example in the cotton market in certain parts of India we reckon at just that amount of money which will enable us to keep three months stock of cotton.

Dr. Jeidels: If sales are, as we heard from Lala Harkishen Lal the other day, of the sugar factory, largely against cash, then you do not need fully three months. In our countries you may generally say that our need about one-quarter of the annual turnover.

Mr. Shanmukham Chetty: When you are talking of normal working capital you are not talking of sufficient capital.

Dr. Jeidels: It cannot be sufficient for all purposes, which includes the development of prices for raw material and finished goods and the activity of trade. One cannot put up as own capital all one may need in a boom year.

Mr. Manu Subedar: Is it your observation and knowledge of German industry in the last 50 years that all industrial enterprises were set up on the basis mentioned by you, that they supply the whole of their block and their normal working capital?

Dr. Jeidels: Joint stock companies.

Mr. Manu Subedar: No, enterprises. I start first with the enterprises and then with the joint stock companies.

Dr. Jeidals: I know the business only when it comes to the bank.

Mr. Manu Subedar: Is it your observation and knowledge that German industrial enterprise was built up on this basis namely, that every industrial unit put up the whole of the block required for machinery, buildings, etc., and the whole of the normal working capital required by them?

Mr. Jeidels: I cannot answer questions which are so put, that I have to answer, "yes" or, "no." If such questions are asked I must have the right to refuse to answer. This question is built up on some assumption, but the assumptions are not stated and therefore I cannot answer it.

Mr. Manu Subedar: Mr. Chairman, perhaps you might be able to put it in a form more acceptable to Dr. Jeidels.

Mr. Chairman: You cannot answer it in the form yes or no. Could you tell us what is the position, as we have read various things in various books whose authority is very difficult for us to dispute? I have given you some; in fact in the very book you recommend we have had quoted actually passages from the charters of some of the Banks and from them certain conclusions have been drawn. We are quite willing undoubtedly to give the greatest consideration to the views you place before us; but there are these documents and we cannot ignore them, and it is really that which gives rise to some of these questions.

Dr. Jeidels: Quite so. I can only repeat that this question cannot be answered by anybody with, "Yes or No." It can only be answered by a description. I can make this description so short as to say that business has developed step by step and has always tried to keep block and working capital in a proper ratio; if I were to attribute their success and progress to one feature especially it is that they have developed gradually, always trying to keep owned capital and borrowed capital in a proper ratio.

Mr. Chairman: I will try again. Let us clear up a few issues. If you give us your opinion on that we will begin with private industrial institutions and not joint stock companies. Is it your experience that a German bank will not advance money in any form—you can take it by taking shares or debentures—that it will not advance capital for block purposes or for the normal working purposes of a private industrial concern at the stage of its inception?

Dr. Jeidels: It may grant credits to an enterprise of that kind from time to time.

Mr. Chairman: At the outset?

Dr. Jeidels: Even at the outset.

Mr. Chairman: That is, a sound German bank will not object to give an advance to a private industrial institution at the stage of its establishment provided, of course, that it is satisfied with the security it gets against that advance. That, I think, Mr. Subedar admits must be there.

Dr. Jeidels: I think it will, on the condition that there is a proper ratio between the amount to be loaned by the bank and the capital of the firm.

Mr. Chairman: That is right; we do not dispute it. Now we come to the second point. That company, that institution, wants to develop itself. It is still a private institution and it wants to develop itself, the initial stage is over. At this stage is it usual for banks in Germany to advance this private institution additional capital for block purposes against proper security?

Dr. Jeidels: Very rarely.

Mr. Chairman: Supposing at a certain stage of its existence that private institution transforms itself into a joint stock company, would a bank in the normal course of its business advance funds to that institution? It has now become a joint stock institution. I think you answered that this is the practice.

Dr. Jeidels: It is the practice, if a financial transaction is on the way to put the proportion of block to working capital again into proper shape.

Mr. Chairman: That is the discretion of the banker, but he would not refuse to look at the business. There are limits which every banker as a measure of prudence must preserve and wants to follow. We are simply trying to find out this, whether the banker would say "I do not want to look at that proposition" or would he say "Very well, I shall discuss this matter with you and if I find that certain conditions are satisfied I shall advance you the money?" Is that not your point, Mr. Subedar?

Mr. Subedar: Apart from what you are now putting, a point on which information is contained in a book recommended by Dr. Jeidels, what I wanted to find out was this. In the last 50 years many industrial units have come into existence in Germany. Can Dr. Jeidels tell me whether these concerns, when they come into existence either as individual enterprises or as joint stock concerns, started not only with a full requirement of block but also with a full requirement of normal working capital?

Mr. Chairman: He said in a case of that sort it is not unusual for German banks if they are satisfied with the security to advance the capital.

Mr. Jeidels: Excuse me, Mr. Chairman. They satisfy themselves not only about the security but also on the proportion of block to working capital. Under the so-called German banking system, a banking system which pays attention to industrial matters at large, the banker may be even more reluctant to overlook this than a commercial banker. I suppose that many bankers would not look at the ratio at all, if only the security is good. They would say "Nothing can happen to us; the security is good; we do not mind whether the business is sound or unsound; we cannot lose any money; why should we not give an advance?" Now, in that sense, the banker under the system described by me is more reluctant than an ordinary banker.

Mr. Chairman: If I may say so, your question is answered.

Mr. Manu Subedar: What is the answer?

Mr. Chairman: The answer obviously is that that being the practice of German banks there have been many cases in which advances have been given provided the applicants have satisfied certain tests.

Mr. Manu Subedar: That is from the bank's point of view. What I wanted to know was whether concerns which came into existence were at the start fully equipped with normal working capital or whether for their normal working capital, having put down the block, they went outside and borrowed the normal working capital?

Dr. Jeidels: It is always useful to quote actual facts. A classical case in the so-called German banking system, often quoted in literature is the history of the German General Electric Company, (A. G. G.). The company was started in 1883; it was in the period when most of the larger enterprises in Germany were started. Edison had invented the electric lamp and a German engineer went to America to buy the patents. They were still imperfect, but he believed in electricity which was not yet popular then. A company was formed with five million marks, capital, equivalent to about 30 lakhs of rupees. The capital was essentially in cash; when business developed immediately the capital was increased and during twenty years in which the capital of the company increased to about 15 times that of 1883, the credit balances of the company, with the banks was never lower than the share capital. The company issued debentures, retained part of the profits, built up reserves and paid conservative dividends, and when it had to begin to draw from the bank balances, it increased the share capital. I give you this history to show you the cautious policy of industrial finance in a classical period and under that banking system, which we discuss.

Sir Hugh Cocke: I should just like to refer for one moment to the review of the industrial activity which has been referred to just now when Lala Harkishen Lal asked whether such an industry as the oil-seed industry had been examined. I think it is quite clear from the statement, No. 1, that the review is based on public companies consisting of 5,831 joint stock companies with a capital of 276 crores. It is obvious that the review which has been given and referred to in that paragraph refers to companies connected with banking and loan, insurance, transport, cotton mills, jute mills, iron and steel, tea and plantations, mining, sugar, and miscellaneous. I want to clear that up because there seemed to be an impression that some examination of industries ought to have been made. The review which has been put forward by the experts seems to me to be based on the amount subscribed to public companies; it does not include any amount used by private individuals. In this country crores of rupees are invested in private enterprises of various sorts.

Lala Harkishen Lal: I asked a question with certain objects and certain limitations. Is that question to be modified now?

Sir Hugh Cocke: I am merely pointing out that the review does not include private capital.

Lala Harkishen Lal: Ought I not to have asked that question?

Sir Hugh Cocke: I am merely pointing out that, as I read Table No. 1, the review deals with public companies and not with private capital invested in oil-crushing, leather or 50 other industries, and, therefore, the review in that sense is incomplete.

Dr. Jeidels: The table includes only joint stock companies, and in so far it is consciously incomplete.

Mr. Chairman: That was precisely Lala Harkishen Lal's point. He wanted to know if this statement intended to apply to all industries, and if Dr. Jeidels had simply said that it applies only to those industries which he could examine with reference to these particular statistics which did not obviously include private companies the answer would, I am pretty sure, have satisfied Lala Harkishen Lal; but, unfortunately, Dr. Jeidels took up a different attitude.

Sir Hugh Cocke: I do not think he understood the question.

Mr. Chairman: You have supplied the answer which Dr. Jeidels might have supplied at an earlier stage.

Dr. Jeidels: If he had understood the question.

Sir Hugh Cocke: I do not think the question was understood. I did not understand it myself until I came to look at these figures.

The only other point which I wish to raise and which I think has hardly been touched upon is this. In the event of India being driven, as was suggested by Mr. Khaitan, to form a special corporation or bank for industrial purposes, it has been suggested to us by many witnesses that a large capital would be required, whether you had one industrial bank for all India or one in each province, and there would have to be some sort of Government guarantee and it might be necessary that a large amount of Government capital would have to be put in. In any case there would have to be a Government guarantee for a number of years to attract capital. I should like to know whether anything of that sort has to your knowledge been done in other countries, namely a special institution being formed for the development of industry, to advance money to industry, requiring a large capital which would only be provided by a Government guarantee.

Dr. Jeidels: I have dealt with this under "Industrial Corporation".

Sir Hugh Cocke: My question is rather in advance.

Mr. Rushforth: I have just one question. You say on page 3, the top of the paragraph: "The banks might then delegate a member of their management to act on the Board of Directors in order to maintain a close connection with the company. The English banks also do this." Don't you mean a member of the Directorate? Do you really mean that a member of the bank's working staff should work as a Director of a company?

Dr. Jeidels: You must please make a difference between management and Board of Directors. Our law is different and makes quite a clear distinction. The Board of Directors does not manage a company even under the English or the Indian company law; it is done by the Managing Director or the manager.

Lala Harkishen Lal: The Directors sometimes are not managers themselves.

Dr. Jeidels: I mean what is with you a Managing Director or a manager; nobody else; not the Board of Directors.

Mr. Rushforth: So your suggestion is that the manager of a bank here might be taken on the Board of Directors of a company.

Mr. Lamond: Would you refer to the last paragraph of your memo. on page 4 where you make certain recommendations regarding the Imperial Bank as to what they should do now in the matter of collecting information. Having collected the information, in what way do you want the bank to use this information which is to be acquired? Having got the information how do you want us to use it?

Dr. Jeidels: As follows. A manager or agent of a branch may have among his customers, say, a sugar factory, which is not getting along well owing to lack of capital or incompetent management. The manager will probably say: "I can give the factory a loan against security in the usual form; if I cannot get it I better leave it alone". On my line he certainly sends the case down to your head office, to Bombay or Calcutta, The head office or another branch may have among its clients a firm of managing agents, specialising in this industrial line. If all information available is properly concentrated and organised, the branch manager would probably tell his customer: "You won't get along; I cannot give you any more credit. Why don't you make arrangements with those managing agents". In this way the connections which the bank manager upcountry establishes are utilised and developed. It is the egg under the hen which sits in Calcutta or Bombay and some chicken may come out. In this way local experience enters the entire organisation and is used with the intention to foster industry and business possibilities for the bank at the same time.

Mr. Lamond: Is that with the idea of people interested in the same trade in different parts of the country being brought together and no other idea than that?

Dr. Jeidels: I do not know whether I ought to go so far into detail. I mentioned a business possibility which could arise in the case quoted. The sugar mill may issue new shares, and the bank working with the mill as well as with the managing agents might buy the new shares and sell them to the managing agents who welcome this opportunity to enter the new field with a minority interest.

Lala Harkishen Lal: I cannot understand this. You advise that the Imperial Bank in a conservative way and gradually with the knowledge accumulated of all sorts of industries and so on should enter this field. What I want to ask is have you looked at the balance sheets of the Imperial Bank for the last 10 years and found that they have large balances or small balances which require investment or that they have been fully invested from time to time to the extent of having to go to the Government on occasions for assistance?

Dr. Jeidels: The balance sheets of the Imperial Bank, as I read it, would allow this kind of business as I understand it.

Lala Harkishen Lal: That is to substitute the present investments by industrial investments? Do you think the Imperial Bank is strong enough for it?

Dr. Jeidels: I am not sure whether it has the resources, but believe it has.

Dr. Trip: I have read that the Imperial Bank can get practically all the capital they want in this country. Is that correct?

Lala Harkishen Lal: Unless they raise their rate of interest . . . . .

Dr. Trip: I mean their share capital. If they want to increase it they can get any amount.

Lala Harkishen Lal: The shares of the Imperial Bank have gone down by Rs. 200 within the last 2 years.

Dr. Trip: They are still above par.

Lala Harkishen Lal: It is a question of capital *plus* reserve. If anybody should put more money you want more reserve.

Sir Hugh Cocke: I should be pleased to take shares of the Imperial Bank at Rs. 100 premium. They ought to raise their capital, therefore, on certain terms.

Mr. Ramdas Pantulu: On page 2 you say: 'The Banks in U. S. A. have cultivated for several years the business of industrial finance in special security companies, which belong entirely to the banks, of which they are practically only a department'. Will you please explain this?

Dr. Jeidels: Ten million dollars out of a capital of, say, 25 million dollars of a bank would be invested in holding the entire share capital of 10 million dollars of the Security Co.

Mr. Ramdas Pantulu: On page 3 you say: 'German banks do not employ a staff of industrial experts nor do they delegate members of their own staff to undertake the management of industrial companies'. What organisation do you possess in Germany to scrutinise applications for industrial loans? In India we are told that many joint stock banks are not giving advances because they are not in a position to understand the potentialities of industries, although the industries themselves may be very sound propositions. The suggestion is therefore made that there must be a Board on which industrialists are represented. You say that in Germany there is no such arrangement. How do you judge?

Dr. Jeidels: The German Bank would first call for full particulars about the industrial concern and then would try to find some authority, not of their own staff, to investigate; if no private authority is available it will try to find somebody from another industrial concern. If it is a sugar factory the bank will ask one of their clients in the sugar industry for the favour to recommend somebody of their own staff. There is no difficulty whatsoever for a German bank to get such competent advice.

Mr. Ramdas Pantulu: It has been suggested that an advisory board of some kind may be formed to advise the Imperial Bank or joint stock banks to look into applications for industrial loans. What do you think of the proposal?

Dr. Jeidels: I am not much in favour of it.

Chairman: I have a recollection, and Mr. Lamond may be able to confirm it, that when I asked you what a commercial bank should do if it wanted to take up industrial finance, your advice was that it should include in the management some expert with industrial knowledge. How does that coincide with what you have stated now?

Dr. Jeidels: The man I recommended is not an expert, not a specialist in any industry; he may have been in the finance department of an industrial concern; he is meant to be a financial expert. He may incidentally be a technical expert too, but naturally in only one field.

Mr. Ramdas Pantulu: Is it not possible that firms will resent the idea of their being examined by a member of their rivals.

Dr. Jeidels: One has to be very circumspect in such case. A sugar factory is not a competitive one. It is somewhat different from an engineering enterprise . . .

Mr. Ramdas Pantulu: Why, a sugar factory also will resent it. My point was this. Suppose a sugar factory applies to you for accommodation. You want another sugar factory man to go and examine their accounts. Will not the factory which applied to you for assistance resent the idea?

Dr. Jeidels: If the sugar manufacturer says, that in a special department of his mill he will not wish anybody to enter, it would be fully appreciated, and the investigating authority's visit would be limited to that part of the factory which is not specially competitive. But if the sugar manufacturer would argue that he will not tolerate an inspection at all, the banker would recommend him to find his finance elsewhere.

Mr. Ramdas Pantulu: Does it not mean that you force the sugar factory to agree to an examination by a rival?

Dr. Jeidels: No. The more industry is developed in a country, the less there is of secrecy. In the United States of America anybody can enter any factory. Accounts will be investigated by somebody from the bank staff or by an Accountant, and only the industrial and technical side by an expert. An investigation of this kind generally requires two men.

Mr. Ramdas Pantulu: What you say may be perfectly correct from the bank's standpoint. Here again I might point out one peculiar difficulty from which India labours. The Imperial Bank for instance and some other joint stock banks know only the principal industrial men, and many of the Indians are not known to the Imperial Bank and other European banks. Having regard to the peculiar conditions of India what do you say to the appointment of an advisory board consisting of persons in whom the bank may have confidence, as a special feature of the Indian commercial and industrial life?

Dr. Jeidels: I think advisory boards are something very useful; but the Boards should just only be advisory. The bank in my country which I quoted yesterday has, apart from the Board of Directors at headquarters, such local advisory boards.

Mr. Ramdas Pantulu: It has been suggested that industrial debentures in this country are not popular and that these debentures should carry a guarantee of Government.

Dr. Jeidels: From the point of view of industrial development it is a mistake not to build up industrial credit including debenture credit, on the responsibility of the company itself. A company ought to have the security in itself and not depend on somebody else's guarantee.

Mr. Ramdas Pantulu: Whatever may be your counsel of perfection we have been told in India that there is little prospect of industrial debentures being subscribed to very largely without a Government guarantee. Government may either take shares or guarantee interest.

Chaudhuri Mukhtar Singh: Towards the end of the 4th page you advise the establishment of an industrial research department inside the Imperial

Bank. May I know what is the meaning of 'Industrial Research Department'?

Dr. Jeidels: To collect information which enables the bank to form an opinion on industrial and other business propositions, when they are submitted.

Mr. Lamond: Are you referring to the Imperial Bank?

Dr. Jeidels: Not exclusively. I mentioned the Imperial Bank, as the institution, where most information is already available; it would only be systematically organised.

Mr. Lamond: You do not know how systematic it is.

Dr. Jeidels: Every bank, cultivating those fields discussed here, ought to have something like a research department.

Mr. Devadhar: On page 3 you say—'It must be admitted that in India no banking agency cultivates industrial relations on the lines of so-called German system, nor does an institution like the English issuing house which could fill this vacancy exist in the country''. The presence of such an agency certainly promotes industry?

Dr. Jeidels: It is my personal opinion.

Mr. Devadhar: If there is no industrial bank to finance industry is it not somebody's responsibility to initiate the bringing into existence of that kind of agency.

Dr. Jeidels: It is just the opinion which I have expressed. It could perhaps be more cultivated than at present.

Mr. Devadhar: You express your opinion with regard to the system of managing agents. You are not in favour of this continuing.

Dr. Jeidels: I am in favour of its continuing. But I cannot approve of this being almost the only instrument by which India is industrialised. I think it has done excellent service to the country.

Mr. Devadhar: But for this institution industries in certain places where they have prospered, would not have prospered. Managing Agents bring capital, initiative, and management, the three things required for the development of industry. You would advocate the elimination of this system.

Dr. Jeidels: Only if there is a better system. The Managing Agency system will be very important in this country for many years to come.

Mr. Devadhar: You say on page 4—'It is out of place to give this suggestion the character of detailed advice as it is a matter for the shareholders, the management, and the board of directors, to decide upon their own business'. If the Imperial Bank refuses to give a loan to an industrial concern, that prejudices its consideration by every other bank.

Dr. Jeidels: It is so everywhere; if some business is turned down by a big bank it is not likely that others will touch it.

Mr. Devadhar: It shows lack of sympathy on the part of the Imperial Bank.

Dr. Hyder: The German system of banking appears to be something like the English constitution. However much a foreigner may read about it, think about it, he could never understand it. A bank in Germany attends an industrial concern from its birth to its death.

Dr. Jeidels: This is a true statement.

Dr. Hyder: The German banking system as it exists today is not the same as it existed 10 or 20 years ago. Could you help us with concrete suggestions as to what we should follow in India?

Dr. Jeidels: I have expressed the opinion that you should try the system. The German banking system exists in many other countries. It is a system which is subject to circumstances and as I have emphasised, absolutely dependent on the capital market. Some features of the system could well be adopted in India and I believe that it would help a sound development of industries in this country.

Dr. Hyder: Did your bank have any relations with Roumania?

Dr. Jeidels: I think we had.

Dr. Hyder: You had also some connections with Switzerland?

Dr. Jeidels: Yes.

Dr. Hyder: Some German Banks financed the building of foreign railway companies (Bagdad Railway) did they?

Dr. Jeidels: There is no secret about this special business. It was done by the issue of single series of debentures in advance to requirements. The best financial transactions are always done in advance.[9] The German banks in the case mentioned did not put up any capital; they put their heads and the public's money into it.

Dr. Hyder: They put their heads as well as their shoulders in case the public did not come up?

Dr. Jeidels: I have always cherished the principle, that also in Industrial Finance those transactions are best which are made in advance of requirements.

Dr. Hyder: What is the power of the Bank over industries in Germany?

Dr. Jeidels: I do not think there is any, so far as sound industry is concerned.

Dr. Hyder: Supposing the industry does not behave?

Dr. Jeidels: I do not know any kind of regular force applied. Banking trade is a most peaceful profession.

Dr. Hyder: I thought this particular Bank, the ———, is exercising a very great influence and said that if you do not do that and do not do this, we are going to call back our help.

Dr. Jeidels: Certainly not. Only where loans have been given to weak companies, where it is a matter of safety, a certain amount of pressure has to be exercised to safeguard sound management.

Dr. Hyder: To clarify matters, how did your relations with the ——— begin originally?

Dr. Jeidels: It was a private firm for construction of light railways. The owner of the firm was a successful contractor. In order to increase his business he had to take shares of those light railways which he built. With the assistance of the bank a holding company was formed for these shares of light railways and some finance for the contracting firm, which is not a sufficiently liquid business for bank loans. The shares of the Holding Company were offered by the bank to the public.

Mr. Devadhar: On page 2 you have said that "they require a responsive capital market and if the public are unwilling to put up the new capital required by the industrial company and which is offered to the market in a suitable shape, then the banks under the German system will not take the place of the public". I think you said in reply to Dr. Hyder that it is done.

Dr. Jeidels: On principle it is not done; but sometimes involuntarily. I wish to make it quite clear that a bank cannot have in its inventory all kinds of industrial shares. The inventory of a bank which is required by the nature of financial transactions is like the inventory of a merchant: it is bought and sold, it is not bought to remind. It is the essential law of this kind of banking.

Mr. Manu Subedar: We understand each other. I take it that with regard to the financing of industries, your view is that the foreign banks will not or should not.

Dr. Jeidels: I have the impression that they consider themselves more or less specialists.

Mr. Manu Subedar: I am only describing the impression I have got in order to put my question later. Your view is that joint stock banks should not go into this field but the one Bank which might go into this field is the Imperial Bank, and you advise that the Imperial Bank should make its preparation by collecting the necessary information in regard to industrial fields, so that when the time comes they may be in a position to deal with the problem. You have also said in reply to Lala Harkishen Lal that when the time comes the Imperial Bank will have the necessary resources. Have you made any estimate of these resources in relation to the demands which may be made for industrial financing?

Dr. Jeidels: Yes. Capital and reserves of the Bank are about Rs. 10 crores. The capital is in itself quite large enough for a business which requires a certain inventory.

Mr. Manu Subedar: Have you made an estimate of the requirements of the existing as well as the new concerns which will come into existence and are you satisfied that the Imperial Bank will have the necessary resources to meet them?

Dr. Jeidels: Yes.

Mr. Manu Subedar: Will you give the Committee the benefit of this estimate?

Dr. Jeidels: The Bank has not to put up the capital of industry. It forms only an intermediary stage; it prepares transactions for the capital market and for that requires a certain inventory, in the same way as a merchant who does not wish to own any goods but in the course of buying and selling has to hold a certain stock. I don't doubt that for this kind of inventory the Imperial Bank is strong enough.

Mr. Manu Subedar: How much call will be made upon them by the industries for accommodation?

Mr. Jeidels: It is difficult to say. It depends on the quickness of the turnover.

Mr. Manu Subedar: Even if I am selling old stock and getting new stock, there is always a nucleus left?

Dr. Jeidels: Yes.

Mr. Manu Subedar: How much do you estimate that nucleus?

Dr. Jeidels: It is really difficult to say, but I think this business can be started with an inventory of half a crore.

Mr. Manu Subedar: Do you mean for issuing and under-writing in this country without holding except what is necessary for a few months, 50 lakhs would be quite enough?

Dr. Jeidels: They would soon find out whether the market takes the securities or not.

Mr. Manu Subedar: That is with regard to the formation of the enterprise.

Dr. Jeidels: Initial as well as recurring issues,—one transaction with the same company follows the other.

Mr. Manu Subedar: Do you suggest that the debenture issue would cover all the requirements of a concern for working capital?

Dr. Jeidels: No, part should be covered by shares.

Mr. Manu Subedar: The shares are there.

Dr. Jeidels: The share capital has to be increased.

Mr. Manu Subedar: Even for working capital?

Dr. Jeidels: Certainly.

Mr. Manu Subedar: If they increase the shares for working capital, you do not expect that the earnings would be spread out over a larger demand?

Dr. Jeidels: You ought not to make a sharp distinction between working capital and block. It is scarcely possible to say for what a company raises new capital. If it uses part of what has been working capital for extension of buildings, it has to find new working capital. The extension of block has only been the cause for the financial transaction.

Mr. Manu Subedar: If the capital market is not sufficiently developed and if it is not able to absorb at the rate at which the industry makes the demand, then have you any suggestions for expediting that process?

Dr. Jeidels: No. In that case neither here nor in any other country industrial development can be expedited.

Mr. Manu Subedar: You have paid a tribute to the three industries which you specifically mention as compared with any enterprise in the West?

Dr. Jeidels: I mentioned some important industries.

Mr. Manu Subedar: I am making quite a different point. You have paid a tribute to Indian industries, for example in these three which you actually mention, and others which you do not mention. But you have paid a tribute to the organisation of the Indian industry.

Dr. Jeidels: Yes.

Mr. Manu Subedar: But your comments on the development of the banking industry do not elicit the same praise?

Dr. Jeidels: I appeal to you Mr. Chairman. I am glad to say that most of what I saw in this country created a more or less favourable impression.

Mr. Manu Subedar: Not banking?

Dr. Jeidels: With the exception of money lending at usurious rates.

Mr. Manu Subedar: With regard to certain fields of economic activity you have been good enough to say a word of praise. With regard to other fields of economic activity you have not the same praise to give.

Dr. Jeidels: You must not infer that. I have given some figures which indeed justify a tribute to the development of industry. Industry is the raw material for industrial banking and this raw material I found very satisfactory.

Mr. Manu Subedar: As raw material?

Dr. Jeidels: As a raw material for this enquiry.

Mr. Manu Subedar: Do you wish then to restrict the praise which you have to give? I believe the words are "comparable to Western organisations". You have used those words for industries and you have used in your memorandum on commercial banking the words "primitive and undeveloped". In one field of activity you do not find yourself so ready to give the praise?

Dr. Jeidels: Mr. Chairman, I have not been asked so far and suppose will not be asked to apply praise or criticism to things seen in this country. It certainly would be beyond my terms of reference. But I indeed did pay a tribute to Indian industry.

Mr. Shanmukham Chetty: In Germany, in the case of an industrial company which is already established, suppose they want to make improvements and extensions to their plant and they approach their banker. If the banker is satisfied that the share capital will be forthcoming, you would have no objection to advancing money for extension purposes?

Dr. Jeidels: As a general rule they may; it depends on the amount of satisfaction with the banker.

Mr. Shanmukham Chetty: Provided the banker is satisfied.

Dr. Jeidels: Yes.

Mr. Sarker: You say on page 3, last paragraph: "The Managing Agent system is open to criticism. There ought to be still another financial agency to meet the requirements of industrial firms". What is the other scheme?

Dr. Jeidels: Closer co-operation of banks with industry on the line which I have suggested. The memo says "A company with a proper board enjoying friendly sympathy and banking advice, ought to be in a position to manage its own affairs". There should be co-operation between banks and industry. I do not see why many companies, which are managed by Managing Agents, should not have a proper Board who finds proper management so that the Company can manage its own affairs. In Germany at the end of 1929, there were 11,300 joint stock companies with a capital of about 1,500 crores. None of them is managed by managing agents; each one manages its own affairs.

Sir Purshotamdas Thakurdas: I would just ask you to look at the figures in Table I. Where do you get the figure of 3 crores for Iron and Steel from? We have not been able to confirm this figure.

Dr. Jeidels: I shall have to look up my original figures. Of course this seems unlikely.

Sir Purshotamdas Thakurdas: There is an omission later on. Bombay is not 4 but 74.

Dr. Jeidels: I have not compared the copied tables with my manuscript.

Sir Purshotamdas Thakurdas: Neither I nor the Secretary has been able to understand where some of these figures come from. They do not tally with the figures which the Committee has used throughout its deliberations. We have to find out where the difference comes from.

Sir Purshotamdas Thakurdas: Look at your figures on the present state of industrial development in India where you refer to 11 crores of debentures. You refer to "78 debenture issues for an amount of 10·6 crores of rupees". I understand that the Tata and Steel debentures are put on the Calcutta Stock Exchange List, but in 'Capital' they give it under Bombay.

Mr. Buckley: I do not know if they are. If you want to buy them you have to go to Bombay to get them. As a matter of fact, I have queried the statement on page 5 of the memorandum "A compilation has therefore been made from the Calcutta Stock Exchange quotation list which includes most of the shares quoted in Bombay". I was going to look it up myself.

Dr. Jeidels: They are all contained in the lists in "Commerce".

Sir Purshotamdas Thakurdas: My intention in mentioning this is that it would be to the convenience of the Committee if you adopted the same set of figures which we have adopted, because it would be very difficult for us who have been following one set of figures to follow quite another set and if we are to come to a common conclusion, whether we ultimately differ or not, we should examine the same set of figures.

My point is this: you have come to your conclusions based on these figures and you would like to adopt them because you find them interesting. We have to understand how you have collected the figures.

Dr. Jeidels: So far as the figures of Mr. Ayangar and mine are concerned they certainly tally, in regard to the state of development of industry, as can be checked from the aggregate of 5,813 companies with a paid up capital 276 crores of rupees. The conclusions at which I arrived in the memorandum on industrial banking have however no connection with statistical figures of illustrative character.

Sir Purshotamdas Thakurdas: I do not want to touch on your conclusions whether industries are developed or not. These are comparative terms. I do not know what you think of the development of industry considering the size of Germany and the development of industry considering the size of India. It is all right for you to say that you are satisfied. What matters is "are Indians satisfied". They are not. Therefore I do not propose to place any stress on your conclusion in that respect. All that I am concerned with is what the Indian people want and what the country feels. The next question is. can you make suggestions how to develop them further? I only raise the point in order to bring to your notice and to the notice of Mr. Cassels and other friends over there that if in future these figures are prepared on the same basis as we have used, it would be helpful. If you wish to adopt any other basis, you are welcome

to do so, but I do hope you will utilise our office for this purpose, so that the figures on which we have been going on could be explained to us by our Secretary—We will do that.

Chairman: On the first page of the memorandum you say "Nowhere does an institution which in the proceedings of the Banking Enquiry is styled 'Industrial Bank' take deposits or perform other banking functions such as opening current accounts and general banking business". I do not really understand what this precisely means. As I have understood it in the various proposals made before us, no uniform suggestions have been made whether the proposed industrial bank should or should not take deposits or should or should not perform other banking functions. That being so, this is a statement which we find a little difficult to understand—It is somewhat difficult unless we agree on definitions.

Chairman: I understand definitions all right, but we have not ourselves defined as a committee what should be the functions of the Industrial bank. The word "proceedings" can only mean either the volumes of evidence or else the summary prepared by our Secretary and in these no definition is given. That being so, I am simply trying to understand what you mean by this sentence—I meant such industrial banks as are expected to buy and hold shares and bonds and give long-term loans to industrial companies with the purpose to start or develop an industry.

Therefore, what you really mean is that "nowhere does an institution which takes shares and bonds or issues shares and bonds of an industrial concern take deposits or perform other banking functions". Is that how the sentence, shorn of its superfluities, will stand?—That is correct. If the sentence is to be changed . . . . .

Chairman: I only suggest that as the result of discussion. It may have to be changed materially, because in the course of the discussion you admitted that in Germany itself banks which do help in the issue of, or actually take, shares and bonds also take deposits and perform other functions—The Industrial Bank, as it has been represented to the committee by many witnesses, is not expected to buy shares in order to sell but to hold them. A bank takes the shares over with the intention to sell; this is an essential difference.

Chairman: But in Germany I understood that the industrial bank actually holds them also—They have the intention to sell.

Chairman: I am simply depending on what you said a little while ago and on what is given in this book by P. Barrett Whale which you yourselves have recommended. In it I find a passage to the following effect: "The point of importance to be noticed here is that the average German firm has always depended to a remarkable degree upon obtaining current account advances, and that not merely to provide itself with working funds but also for the purpose of extending its permanent equipment in anticipation of recourse to the investment market". That means it will have to be held for some time. For how long it will be held is a different matter. The proposals made to us are various: some say they will hold them permanently, some say they will hold them for a certain period and they will pass them on to the market. Therefore I find it difficult to understand the sentence. Apart from that, later on you have yourselves mentioned the case of Japan—In the case of Japan I was informed that they do not do banking business.

Chairman: What about your own German banks?—I have read 83 evidences thoroughly and added marginal pencil notes but there is not one in which an Industrial Bank is presented to us which has the least likeness to German banking. With regard to your previous remark if an Industrial Bank as pictured in the evidence, takes over shares and bonds, it does of course not have to hold them forever, but in taking them over it has not the intention to sell.

Chairman: What about Canada, what about the Bank of Montreal? Has it never held industrial shares in bonds? I have a passage here from the 'Banker', Vol. XII, 1929:

> "The Bank of Montreal showed great farsight and statemanship when it supported by its resources the building of this Railway" that is, the Canadian Pacific Railway, "at a time when the project was viewed with grave misgiving both as to the feasibility of the plan itself, and as to the country through which the line was projected".

It goes on further and talks of other industrial enterprises. My anxiety is to see that nothing appears in these papers which, when published, would immediately be got hold of.

Mr. Cassels: In Canada no bank buys and holds first class debentures as an investment and they do not at the outset finance industries.

Chairman: According to your information, this statement here is incorrectly put, because it refers to a particular institution—It is misleading. In the old days it was a condition for federation by the maritime provinces that they would come into the federation in a province of Canada only if a line were built from east to west, and that was the origin of the Canadian Pacific. The Dominion Government guaranteed interest on stock and I believe the way in which they did give them temporary branches was against the protected issue in London of the debenture stock and preference stock.

Chairman: I am not talking of the railway itself, but of the bank. Apparently the bank may advance and this advance remained as such for a considerable time. I do not know for how long—I know it is totally opposed to the banks' method and practice.

Sir Hugh Cocke: If the advances were guaranteed by Government, it puts it on a different basis.

Chairman: The 'Banker' also contains the following: "The building of canals also in the pre-railway days was made possible only because of the active support and co-operation by the banks. In short Canadian industry has had no opportunity of making any complaint regarding the inadequacy of the financial support which it gets or deserves to get from the indigenous banking system". This indicates to what extent the banks in Canada help the development of industries in Canada. Again "the interest which the Canadian banks have taken and still take in the development of the country whether in respect of agricultural, mining or manufacturing industry, is worthy of special mention". That is how the quotation begins and the instances are given which I have already quoted.

Dr. Jeidels: The statement which I made is correct, that such institutions do not at the same time do ordinary banking business. This statement is of course, based on those facts which have been available to me.

Chairman: As it is you are an expert on the subject. I am not, my knowledge is derived from study. You make a statement in rather drastic terms. If you had made a general statement, it would be a different proposition but you make a very drastic statement. All I wanted to point out was that I have reason to doubt if your statement is correct. If you think it is correct, I have nothing to say—I think, the statement is correct, but I agree with the Chairman that the definition of what the Indian Banking Enquiry has styled "Industrial Bank" is apparently not quite clear to the members. It is not a very precise definition, because the comprehension of an Industrial Bank as far as India is concerned, is something new. It is entirely derived from allusions to it in the Provincial Reports and the 83 evidences which I have read. I have not read all the cross-examinations, but I do not expect that these have changed the definition essentially. I have understood the witnesses describing Industrial Banks which should buy shares and bonds without an immediate prospect of sale; they would also give long-term loans without knowing in what way they can be refunded: there is a certain influence on the management of those companies of which shares and bonds are held and to which loans are made. We have therefor three features which distinguish this Industrial Bank of the Indian Central Banking Enquiry from other similar institutions. I tried in the chapter on 'Industrial Banking' to survey institutions all over the world which correspond somehow to the above description. I have drawn in the Investment trusts and the German State Companies and investigated whether they are similar to the specimen of Industrial Bank conceived by the witnesses and by public opinion in India. If my remarks about an Industrial bank are of any value at all, I think they require a clear distinction from the institution which is advocated here. If nothing exists which is very similar to the conception, then, of course, the recommendation of such institution is correspondingly greater, without involving a final criticism of the plan.

I repeat it is no final criticism. But there is nothing in the world which is very near to that ideal. As an expert I feel obliged to say that what is eventually advocated is something entirely new, has no precedents and no possible comparison and can not use the experience of others.

Chairman: As it is I am at the present moment discussing your opinions. That is a different matter. If your view was that that type of bank which according to your lights has been recommended to us by various witnesses in their written memoranda, that type of bank, does not exist anywhere in the world, you might have said so. All you say is this that type of bank—you do not say whether it exists or not—does not take deposits or perform other banking functions. That is my difficulty. I have brought out my point fully and clearly.

Mr. Shanmukham Chetty: Now that the mind of the public has been turned on industrial finance and banking and it finds reference in the reports of provincial committees, that for the development of industry we must have industrial banking, I would venture to submit, Sir, that the impression that Dr. Jeidels has gathered about what these witnesses mean when they speak of industrial banking is quite wrong. That is now certainly what I mean by industrial banking and I never gathered the impression from any of the witnesses or from reading the provincial reports that they are contemplating an institution which Dr. Jeidels has just described. It is not my purpose to start an industrial bank to hold shares without any

possibility of their being sold or have long-term investments without any chance of making sure that these will be returned. I do not think that is the idea of anybody in this country, that that is the type of institution.

Chairman: That is the impression left in Dr. Jeidels' mind.

Mr. Shanmukham Chetty: My point is that since we are asking Dr. Jeidels' advice about the advisability of starting industrial banking in India, if we have this wrong conception of what we mean by industrial banking, the whole discussion is vitiated by that wrong conception. That is not the idea of industrial banking that we are thinking of.

Dr. Jeidels: I welcome this discussion. What I wish to say now, is not said for my colleagues, but personal, and only I am responsible for it. The procedure is quite a good one, it is most interesting and I have not expressed any objections to it. But if you ask, how similar expert advice is given in other cases (I myself do not do it very often), then I have to tell that the procedure is, of course, entirely different, not the handling of the meeting itself; it cannot be more perfect.—Those who wish to hear expert advice put some prepared questions and statements to the expert, state exactly what the opinion of the Committee is, outlining certain facts which the Committee wishes to put before the expert, and ask the expert what he thinks of it. This is the procedure elsewhere. I do not speak for my colleagues and give only my own impression, if I say that much of what is here expected of me, is really not my business. I do not think the expert has to define and describe the subjects and find out the opinion of the Committee. It is another matter—if a Committee calls witnesses; in this case the Committee puts questions, these questions are answered and the witnesses will never hear which opinions the Committee itself adopted. If a Committee however asks an expert's advice, the Committee has to put before the expert a statement of facts and the opinion of the Committee and to ask the expert what he thinks of the opinions in view of the facts. I have not objected to the procedure as it is; but you will not mind, Mr. Chairman and the other members, that I have a rather disagreeable feeling about the treatment of the statements which I put before you. It is not the question of the work done, which is not little. But if it is criticised, not only now, but all these days, and if I am asked "Why do you write this? Why that? This leaves some doubt" and so on, then I must say, it is not my business to give such explanations, gentlemen.

Chairman: I have to make one observation in regard to that. After examination of the memoranda and of the evidence, certain statements of the case were prepared by Mr. Ayangar and examined by some of my colleagues, and I take it that these statements have been supplied to you and from them you would have found at least the direction in which our minds were turning. It did not certainly indicate what conclusions we are likely to arrive at on them, but they undoubtedly showed the problem before us. Now, that being so, I should say that that would form the basis on which your advice was sought. As it is, it was not really necessary for you to go through all these various documents 83 or whatever you call them, except for purposes of confirming or examining anything said in this document. We in fact want to draw benefit of opinion from everybody, ourselves and the experts, on these statements of the case prepared with great trouble; and there it has brought

out what we ourselves as a matter of fact consider on the basis of the documents before us to be the ideas in regard to industrial banking. I have nothing more to say. The document undoubtedly is yours, not mine; but I simply wanted to ask a question because you began with the proceedings of the banking enquiry. I did not understand what those proceedings were, nor did I understand what you meant by the rest. I shall simply leave it at that. I do not want to pursue the matter.

Dr. Jeidels: I do not intend to pursue the matter any further. It gave me a very welcome opportunity to tell you that the opinion, which the Committee has arrived at, after 1½ years of work has not been put before us together with the question, what our opinion is. I have personally not objected to this procedure, and have answered every question and tried to be of all possible use to the gentlemen present. But if in this manner the documents which I put before the gentlemen are scrutinised for every word, I must remind you, scrutinised by gentlemen living in the English language in criticism of somebody who does not —I think, it is rather hard, and you will not mind my giving expression to this feeling.

Chairman: If that was the position, the matter was capable of very simple solution I have always said that I have no intention of cross-examining you. I was simply trying in the first instance to gain a certain amount of knowledge, and it struck me that perhaps a passage in your statement required modification. I wanted to bring that to your notice. In fact when we were appointed, it was stated "It is the intention that these experts should have joint discussions with the Central Committee" and we are having those joint discussions. If you object to my drawing your attention to what I consider a passage in your memorandum which is liable to be misunderstood, I shall not certainly, do that in future. That is clearly understood. I was not examining you. I was doing nothing of the sort. I simply drew your attention to a certain passage in your memorandum which certainly I could not understand; and I brought it to your notice so that you might consider whether it was necessary, whether it was desirable, for you to expand it so as to bring out your real meaning. If you take exception to that, I can assure you that that will not happen again.

We will start this discussion on Monday at 11 O'Clock.

2nd February 1931.

Chairman: Before we commence our proceedings, I think it is only fair that I should indicate to the experts the decision about our procedure which we arrived at on Saturday evening. We decided on Saturday evening that in all matters on which we are consulting and getting the benefit of the views of the experts, we should try our best to formulate our provisional conclusions not later than the 25th of February and that we shall inform the experts immediately of our provisional conclusions and if necessary we shall discuss those conclusions with the experts. We expect at the same time that if in any case they disagree with our conclusions they should place their report in our hands before the five remaining experts leave India. It may be—I do not know what the position is going to be—necessary for Dr. Friederich not to leave India till the 21st of March and I thought, Mr. MacDougall, you might be able to stay till the 21st March.

Mr. MacDougall: If necessary.

Chairman: You know also that there are certain aspects of the position in regard to rural marketing, for example, which does not concern the other experts as much as it does you personally. If that is so, it may not be possible for us to come even to provisional conclusions in regard to those matters by the 25th February; that may be delayed by a week, because I think we want to see one or more places. That was the trend of our conversation. It will not be possible until we have finished with these matters on which we are having discussion with the other experts.

Therefore, in regard to these particular matters connected with rural marketing, it may be necessary for us to defer our conclusions up to, say, about the 10th of March and then we will follow the same procedure we have been following, and there again we shall expect to have your report and our provisional conclusions before you leave India.

Before we begin our proceedings I must say this, that Dr. Jeidels and I agree to substitute certain words. He proposes to replace on page 1 of the memorandum, sentences 2 and 3 as follows:—

> "The 'Industrial Bank' as described in the majority of evidences and suggestions to the Banking Enquiry is an institution investing in shares and bonds of industrial enterprises and long-term loans of such and is itself financed by share and debenture-capital; it keeps a controlling influence in the management of industry which it assists. Such institution to the knowledge of the experts does not anywhere cultivate at the same time a regular banking business."

This alludes to the second and third sentences beginning with the words "Nowhere does an institution" down to the words "take the place of Stock-and-Debenture capital". This might lead to some discussion about the position of the Bank of Japan about which I think we have got considerable details in that small pamphlet which was issued by some British consular authority in Japan.

To-day we will deal with the second subject, that relating to the investment market.

Dr. Jeidels: May I ask for a minute? I would like to explain the figures about which Sir Purshotamdas has asked, and which are amended to the Memo. on Industrial Banking. One is a clerical error. Sir Purshotamdas has already given the correct figure of joint stock banks in Bombay. The second has been the strikingly low figure of Iron and Steel Industry. The figures given by me are however those of the official publication and are identical with Mr. Ayangar's compilation which also gives the figure of 3 crores. The reason is apparently that the Statistical Office registers the Tata Works under iron ore and not under iron and steel. I do not think it is a very fortunate classification, but as it is, the figure given in my statement as in that of Mr. Ayangar about industrial joint stock companies proves to be correct.

Chairman: As we are on these figures at the present moment I wish to refer to the appendix to another statement, List of Calcutta Managing Agents. If you look at the last two lines you have got "385, 52, 147, 79, 29, 40, 6 and 32". Now, below those figures beginning from 52 you have got another set of figures. It puzzled me as to what they meant.

Dr. Jeidels: They mean the whole of respective companies listed. It shows that altogether the shares of 53 jute companies are listed in Calcutta and that of those 53, fully 52 are managed by Managing Agents or that only one has its own management. The respective line is not to be added up, as I have mentioned this comparative figure not for all, but only for representative industries. In jute the position of the Managing Agents is strongest; next in coal mining and tea gardens; it is least, but still very important with electricity and engineering, where somewhat more than half of the companies are managed by Managing Agents. I should give a short explanation, why I made a new compilation independently from that circulated by Mr. Ayangar. The latter figures contain those companies doing business in India but not having a rupee capital. These foreign companies are in the official Statistics given with their entire capital; they include, for instance, insurance companies like the Prudential, the Commercial, the Sun Life of Canada who do most of their business outside of India, and the astounding figures of their Capital contained in the Official Statistics therefore do not illustrate the capital invested in India. These enhanced figures I wished to exclude in order to keep somewhat nearer to reality, my figures may be too narrow, while those of the official statistics are certainly too large for this survey.

Chairman: We will now begin with the investment market.

Dr. L. K. Hyder: I just want to ask Dr. Jeidels what practical steps he would suggest to make the debenture market popular.

Dr. Jeidels: Principally two, I think. It is reported—I cannot say that it is a general rule—that companies with debentures outstanding are not popular with banks for commercial credit. The reason is apparently that the debentures have a first charge on the property of the company. In other countries, for instance the United States of America

or my own country, the attitude is different. There it is accepted that a company through debentures raises part of the capital, though not by shares, yet by long-term finance; it is not considered justified to discriminate against such companies. Financing capital by debentures is quite sound and the banks attitude in the matter is of great importance.

Chairman: Therefore, when you say a better cultivation of a market for debentures is to be advocated, you make that observation for the benefit of the banks. Can action of any concrete kind be taken by the Committee in this matter?

Dr. Jeidels: I do not think so, but the Committee has an opportunity of expressing itself favourably on financing by debentures, in order to remove the criticism now practically exercised in this country. The second possibility of improving the market for debentures is to create really attractive issues. Other countries know a great many forms of debenture—issues; convertible debentures, debentures with a comparatively high premium at maturity, etc. This is particularly necessary in a country where Government securities are offered at very attractive rates.

Mr. Khaitan: You use the expression "convertible debentures". What do you mean?

Dr. Jeidels: Convertible into shares; the debenture holder is entitled to exchange his debentures in shares, say 2 to 1; for Rs. 100 debentures he has the right to receive shares of Rs. 50 par value.

Mr. Khaitan: Supposing to-day a company issues debentures and the shares of that company are of a certain value, but the company enters into an agreement with the debenture holders that at any time before a certain year if they want to convert the debentures into shares the company will issue its shares to the debenture holders at a certain value?

Dr. Jeidels: Yes.

Mr. Shanmukham Chetty: Would you suggest any ratio between debentures and share capital which would be considered safe and sound?

Dr. Jeidels: It would require separate rules for each class of industry. The best authority seems to me the listing committees of the stock exchanges. The respective institutions in my country and in the United States are those whose procedure in practice is known to me. They study the balance sheet and with regard to debenture issues for which listing is applied for, they form an opinion about a proper ratio. The listing committees of the two stock exchanges in Bombay and Calcutta ought to be further developed. The listing committee in my country has a Government Commissioner on it.

Mr. Shanmukham Chetty: When an industrial concern wants to issue debentures it consults this listing committee whether the amount of debentures is all right.

Dr. Jeidels: If the company or the bankers wish to have the debentures listed, they have to take the listing committee's views into account.

Mr. Shanmukham Chetty: Otherwise you mean to say the stock exchange will not quote those debentures?

Dr. Jeidels: They would not. If they are not satisfied with the soundness on certain lines then it will not list the issue.

Mr. Shanmukham Chetty: If once a stock exchange agrees to include these debentures in its quotation then you think it must be taken, so far as the bank is concerned, that that debenture is sound?

Dr. Jeidels: It is not an endorsement but it is a control. I think a listing committee is of great importance in a system of developing industrial finance.

Mr. Buckley: In practice do joint stock banks who issue debentures first of all apply to the listing committee before they do so?

Dr. Jeidels: No.

Mr. Buckley: They have to take the risk of that?

Dr. Jeidels: Yes, it has an educative effect on the company and the banks.

Mr. Cassels: It is usual to put on the prospectus that application will be made to the London Stock Exchange for a quotation. If they put that on they naturally assume that they have gone into the question.

Dr. Hyder: Have you got a copy of the rules which govern the actual listing committees?

Dr. Jeidels: I shall probably be able to furnish it. The New York listing committee had sent the Chairman to all European stock exchanges sometimes ago. In his report, if it has been published you will probably find a critical survey with recommendations.

Dr. Hyder: Later on, you speak of opening a market of mortgage bank debentures. You are referring here to land mortgage banks.

Dr. Jeidels: Yes. I suggest that it is discussed under rural credit. Mr. MacDougall will probably report on the subject. What I wished to point out was that the market will sooner or later have to be prepared to take care of this kind of bonds.

Dr. Hyder: I was wondering in my mind that perhaps it may not be so difficult to put on the market land mortgage debentures, but the difficulty becomes very much greater in the case of industrial debentures which is a question bound up intimately with the efficiency of management of the particular concerns. In the case of land I think it is sure; the thing can always be sold.

Dr. Jeidels: I prefer not to discuss it now but I may venture the remark that in the case of land mortgage banks as with industrial companies it is necessary that they should have a sufficient share capital. It is not only the question of ratio, the capital must in any case be substantial. A small company is not well fit to issue debentures.

Dr. Hyder: With regard to the debentures of land mortgage banks, I take it it may be possible to standardise them for a province at least, but it will be difficult to standardise debentures.

Dr. Jeidels: There again my general suggestion applies that the banks study the entire field, instead of leaving it to the stock broker. The banks ought to be in a position to decide which debenture issue is a proper one.

Dr. Hyder: It would be very enlightening to hear from you what proportion of the capital of German banks is sunk in the finance of industrial undertakings.

Dr. Jeidels: It can be drawn from the banks' monthly statements which I have put on the table the other day. The statement also shows how the banks inventory in shares and bonds is divided in more or less long term investment and in short term transactions, because a difference is made between syndicate participations and investments. Syndicates are transactions in course of realisation, while investments may be held for a longer period; the distinction depends on many circumstances.

Dr. Hyder: I should feel much obliged if the statements were translated into English.

Dr. Jeidels: The Berlin banks alone—the provincial banks do not cultivate this kind of business to the same extent—had invested in syndicates, that is in course of realisation, about 200 millions Reichsmark equal to about 13 crores, and in other kinds of investment about the same amount, 216 millions Reichsmark. This amount of 26 to 28 crores of rupees one has to compare with capital and reserves of the banks, amounting to about 60 crores, in order to arrive at a conception of the inventory used in industrial and similar finance.

Mr. Devadhar: On page 5 you say "The deposits with co-operative institutions are left out of account as not being available for the investment market". Sometimes part of it is available for the investment market?

Dr. Jeidels: Yes, a part.

Mr. Devadhar: Will you please tell me the grounds on which you exclude those deposits in the calculation of the investment market?

Dr. Jeidels: Because it is only a comparatively small amount. The co-operative institutions are working in a special field. If one wishes to make the estimate more accurate, which is not necessary for the purpose, one would have to count perhaps 10 crores invested by co-operative societies in Government securities as part of the investment market.

Mr. Devadhar: Further on you say: "If on the strength of these figures the capital market in India itself is estimated at somewhere near 700 crores, one is not justified in speaking about the Indian investment market in a derogatory way".

Do you mean to suggest thereby that the provision for the money market is adequate for the needs of the country?

Dr. Jeidels: No. The conclusion is that my suggestion of a certain activity of banks in industrial finance is justified by the existing capital market. If none existed I would have to withdraw my suggestion; this is the reason why I made this statistical study of the capital market.

Mr. Devadhar: You do not mean to imply that it is sufficient to meet the needs of the country to-day?

Dr. Jeidels: I did not study it from this point of view. It is very difficult to say that a capital market is big enough or not.

Mr. Devadhar: Have you been able to form any estimate after having listened to all these discussions as to whether double this amount or treble this amount of money would be required.

Dr. Jeidels: No, certainly not. The amounts which are needed in industrial finance business of banks develop slowly and carefully, and they are comparatively not very large. The company statistics show that the number of new companies formed in India in the last three or four years has been small which confirms this opinion.

Mr. Devadhar: In the last but one line of the same paragraph (para. 3, page 5) you say—'but also the hoarded property in monetary form and the amounts used in money lending'. Have you been able to form an estimate.

Dr. Jeidels: I have not made an estimate.

Mr. Devadhar: Do you also include gold and silver?

Dr. Jeidels: I may perhaps call attention to the tremendous importance of this matter. The two sources on which this country can fall back for financing industry, are the hoarded money and the amounts used in money lending. For the future development of India this seems to me to be a vital aspect.

Mr. Devadhar: You find this tendency—the hoarding of money—in this country in excess of what you find generally elsewhere.

Dr. Jeidels: Far beyond western countries. I do not know eastern countries sufficiently to compare to India. Between hoarded money and money lending there is an important difference in this connection. Money lent is invested and has to be withdrawn from one phase of economic life if it is to be invested in another.

Mr. MacDougall: In the average household the hoarded wealth amounts to Rs. 100 worth of jewellery.

Chairman: Where do you get the statement from?

Mr. MacDougall: From the detailed survey of a village by Professor Chablani.

Chairman: Now that you are on this point of hoarding I see you say—

> The problem of hoarding does not appear to have been investigated very successfuly in the Banking enquiry, and it ought to be gone into further in the course of verbal discussion.

I wonder whether you have seen the evidence, rather the examination, of a Professor of Economics of Lucknow University who raised this question. When we put before him the facts which have come out in the course of the enquiries of the provincial committees he had to admit that perhaps he had placed too much reliance on casual statements on the subject of hoarding. He stated also he had not seen the provincial reports which were not available to him. I dare say you would have noticed, if you had read the reports of the provincial banking enquiry committees, that they devoted considerable attention to this question of hoarding. They sent their investigators who were assisted by some members of the provincial committees, to selected typical villages, and there they went into this question of so-called hoarded wealth. My recollection is that every provincial enquiry committee said the same thing, that there is not much

hoarded wealth now. Lala Harkishen Lal was a member of one of these committees—the Punjab Committee, and I think he might be able to tell about it. Another professor of the Lucknow University—Mr. Radhakamal Mukherji—had gone into the matter and was of the view that there is very little hoarded wealth.

You talk of families above the lower middle class. I think myself and most of our colleagues come of families of that sort, and so far as we know, money is no longer hoarded. Sir Purshotamdas Thakurdas will be able to give you his personal impressions in the matter. There is a good deal of jewellery undoubtedly.

There is another examination before us of a gentleman who is the editor of a paper called 'Indian Finance'. He had similar ideas, but when examined—he was examined by you (facing Sir Purshotamdas)—he had to change his views. Lala Harkishen Lal states that in Patiala enquiries have been made and that they do not find any hoarded capital there.

Dr. Trip: May I ask a question. It is a fact that imports of gold into this country have been large, and still go on year after year, and statistics must be available of all these imports of gold. Where is that gold gone if it is not hoarded?

Lala Harkishen Lal: The figures of imports are available, but the figures of wastage, wearing out and the uses of gold are never collected. We use gold in many ways. First of all we use it in ornaments, and there is the wearing out of these in the course of wear. We have had in big families in the past golden vessels, which are not only washed but are rubbed to be cleaned. We have lots of medicines in which we use gold. We use gold leaves with *pan* and there are other wasteful uses. We did discuss these matters in the Punjab Committee; we discussed them with witnesses and they also said that nothing very much was remaining.

Then 'hoarded' would mean any quantity which is superfluous, over and above the ordinary standard of life in which a family lives. We found that the quantity of gold imported during the last 25 years was accounted for by the marriages of peasants. We were told by the peasants themselves, by people who have knowledge of their lives such as co-operative inspectors, that a fairly well-to-do cultivator spends about Rs. 1,000 on gold ornaments at the time of marriage, and when we worked out the number of marriages which took place year by year, we found that there was nothing left to be hoarded. That was how our figures were worked out.

Then ornaments are made and remade following the changes in fashions and there is loss in weight. In 100 to 150 years of a golden article there is little gold left. I do not say that India has nothing left. That of course is not my assertion. The members of the Punjab Committee knew the country very well, and the Chairman who had been living in the country also knew the country very well, and we did not find any gold hoarded anywhere.

Mr. MacDougall: I have one concrete case. A friend of mine, a big merchant in Punjab actually told me he had gold in bars in his house to the extent of £60,000.

Chairman: I belong to the class just above the middle class. Sir Purshotamdas Thakurdas carried on a discussion with the Editor of the Indian Finance. There is not much in it. You may come across one or two such men as Mr. MacDougall has mentioned. He is a trader and

so is different from other classes. We are a bit surprised when we hear about hoarding because it does not tally with what we have come to know through the reports of the provincial banking committees and our own experience.

Lala Harkishen Lal: An enquiry was made from .....office in Punjab which has been selling land for the last ten years, and I particularly enquiried of the Financial Commissioner how much gold was paid for lands purchased by agriculturists, and they said not more than 2 per cent. If a man buys land and has gold or gold currency he will certainly produce it.

Sir Purshotamdas Thakurdas: When I read on page 6 that this problem of hoarding does not appear to have been sufficiently investigated, I felt that this Committee would be doing extremely incomplete work if they did not deal with this myth as I venture to call it, with the impression the civilised world has that India is still hoarding gold. I wish to suggest for the approval of the Committee that one of the Secretaries—and I have asked Mr. Masani to do it, and he has agreed—should collect all the material in this regard in the provincial reports, and that we should also have the first portion of Lala Harkishen Lal's statement, which is very important and fairly full. I will also ask Lala Har Kishen Lal kindly to let us have a paper on hoarding. I think it is necessary to convince our friends on the other side of the table that there is another side to the picture, or for us to be convinced that there is something in this gold hoarding. The only way in which gold hoarding is sought to be proved till now has been the way in which Dr. Trip has put it. All this gold has gone into India, where is it if it is not in hoards? Lala Har Kishen Lal has, to my mind, given a fairly full reply, and for purposes of discussion I suggest that Lala Har Kishen Lal will agree kindly to complete his reply.

Lala Harkishen Lal: I do not mind.

Sir Purshotamdas Thakurdas: After Dr. Jeidels is gone we will go into this question fully again with the rest of them, and try to understand how they arrived at the conclusion which I seriously challenge and which I know all the Indian friends that I have come in contact with actually challenge. It is true that we have no figures which do not justify the inference which you gentlemen and the world draw. There may be a man who has £60,000 worth of gold. I should like to know whether the man understands anything about currency.

Lala Harkishen Lal: I have heard of a zemindar who has become rich on account of irrigation canals. He had *barani* land (land which depends on rain for cultivation). He collected sovereigns and put then in *ghadhas* (earthen jars).

Sir Purshotamdas Thakurdas: Apart from any such isolated instances it can not be contended by anybody that in cities or rural areas there are old hoards. I should very much like this to be discussed, and I think it will form a very important part of our report.

Lala Harkishen Lal: What about gold that leaves India for Tibet, Persia, Afghanistan, across the borders, of which there is no record.

Sir Purshotamdas Thakurdas: At the moment we cannot to-day take the discussion any further. A very comprehensive paper will be prepared by the office with the guidance of Lala Har Kishen Lal and will be discussed fully. I attach to it the greatest importance.

Dr. Hyder: Recently the League of Nations issued a memorandum on gold. They investigated the whole production of gold and its uses. What we want you, gentlemen, to consider is this: the monetary and non-monetary uses of gold and all the relevant factors in regard to all countries. It will give you an insight into the magnitude of the average which a person carries on his person. The amount of gold used for non-monetary purposes by all the populations of Europe put together compared with the quantity used by 320 millions of India will give us a correct idea of the situation.

Chairman: In that connection I would ask the experts to look into the tables on pages 534 and 535 of the Currency Commission's report. Mr. Ayangar will supply copies of the table if you want it. I may make one observation for the information of the experts. There is no use their going and getting hold of a man and getting something out of him. There is Mr. Darling, President of the Punjab Committee, who knows about the conditions of the people. There is also Lala Har Kishen Lal, and there are also those to whom he refers. These people do not go and get hold of one man or two men. They make an enquiry throughout the province. There is now another committee engaged in making a similar enquiry in the Patiala State. Lala Har Kishen Lal has kindly consented to produce a paper, and we can discuss the matter with the experts on a later occasion. The experience of Mr. Buckley as manager of Chartered Bank more or less confirms our general impression. I was rather sorry when I read that the problem does not appear to have been investigated very successfully by the Banking Enquiry Committee.

Dr. Jeidels: If my remark, that the Committee has not studied the problem of hoarding very successfully, is considered as a criticism, then I prefer to withdraw it. The provincial reports have tried to tackle the problem from one end, the villagers, whom I would prefer to leave out entirely when speaking of hoarding. The other way which I expect to yield more success is to start from the figures of gold imports and to find where the gold has gone.

Chairman: If you had examined the evidence, you would have found all these points discussed.

Dr. Jeidels: I have not found this point fully discussed in the evidence.

Mr. Rushforth: May I raise one point about the hoarding of rupees? It seems to me rather an interesting point. You mentioned hoarded rupees being made available for bank deposits. I am not quite sure of my figure, but I rather think that within the last 18 months something like 100 crores of rupees have returned from circulation. Now they have only created a position which is commonly called redundant currency. There is no question about it that rupees in circulation in certain conditions do come back to the banks, and it seems to me that the point ought to be considered as to why when these rupees come back to the bank they create a state of crisis instead of facilitating investment. The reverse situation happened

in 1923, 1924 and 1925, but it was in the other direction. There was a very large demand for rupees which was met entirely from the balances of the Imperial Bank, to such an extent that not only Indian Chambers but the Bengal Chamber at the Associated Chambers meeting drew the special attention of Government to the fact that there was not sufficient currency to meet the legitimate requirements of trade and banking.

Chairman: Of course the return of currency from circulation is due to many causes which are well known to us. A perusal of the report of the Controller of Currency brings out the facts. The principal one is that commercial banking facilities at outstations are practically non-existent. There are no institutions into which the ryot can put his savings. When the ryot gets more for his crop and has more wealth generally there is a demand for rupees. When owing to depression or some other cause they are not so well off, rupees come back from circulation. That is not a problem which is special to India. In any case the rupees come out of the currency offices; we do not know whether they come back to the banks or not, but even if they do not that only means that banking facilities in India are not yet fully developed.

Mr. Khaitan: The question of rupees going out of the currency and of rupees coming back into currency has got to be considered from another point of view also. This matter received the special attention of some members of the Committee of the Federation of Indian Chambers of Commerce and Industry at a formal discussion of which no report has been published. It seemed very strange that just when the Government of India wanted to sell silver by a peculiar coincidence more silver rupees were coming into the currency reserves than at any time previously. We made certain inquiries from which it appeared that what happened was this. Formerly rupees circulated freely when they came in payment of Government revenue because they were given back in payments which had to be made by Government for any purpose whatever. Since the time when the Government of India adopted the policy of selling silver, I may say, for reasons which I need not discuss, against the wishes of the Indian people,—since that time silver rupees received in payment of Government dues, etc., have been going into the currency reserves, and when money has to be paid out it is paid in currency notes. Therefore what is now happening should not be compared with what used to happen. The Government have adopted a sort of artificial method of drawing silver rupees into the currency reserve which in previous years would have been in circulation. Mr. Rushforth has referred to 1923 and 1924. Two factors have to be borne in mind in considering what happened in those years. Just previously the price of silver had risen to a very high level and people coud not get silver rupees in the way they demanded, and the high price of silver induced people to think that having silver rupees in their hands really meant having actual wealth. That was heightened by the Government issuing notes instead of rupees. Perhaps the Government had not enough silver in their hands—I do not wish to blame anybody—and as you know, they had to make arrangements with America and the Pitman Act was passed in America for the purpose of helping India with silver and that action continued for some time. And at that time because the Government had abandoned its intention of stabilising exchange at 2*sh.* gold, the process of contraction of currency that had taken place before then had to be given up for the time being, and more currency was required to

be put in circulation. That explains why more silver rupees were going out into circulation from the currency reserves at that time. I have already explained the reason why more silver rupees are coming back into the currency reserves from circulation at present and during the last 13 or 14 months, to which Mr. Rushforth has referred.

Chairman: That is not a matter which need enter into the investigation of this particular problem. The preference for a particular form of currency or the contraction of currency, these are connected with other considerations. Those problems are not special to India.

Mr. Devadhar: On page 6 you say, "Foreign capital for India has not been encouraged lately by the general state of affairs". Do you refer to political affairs?

Dr. Jeidels: Yes.

Mr. Manu Subedar: You are not referring to the ratio of exchange?

Dr. Jeidels: No, I did not have it in mind.

Mr. Manu Subedar: Do you consider that when exchange is raised it encourages capital to go out of the country and prevents capital coming in, and *vice versa*?

Dr. Jeidels: I have not considered the point in this connection.

Mr. Ramdas Pantulu: Have you persued the report of the External Capital Committee, which Government appointed two years ago?

Dr. Jeidels: No.

Mr. Devadhar: You say in the second sentence of paragraph 1 on page 6 "Practically all New Loans issued by the Government in India are normally for productive capital expenditure, which if not by the Government would have to be supplied by the capital market to private enterprise". Which would you recommend?

Chairman: Even if his opinion is that the State ought not to, we shall not be able to make any recommendation. We know what the policy of the Government is at the moment and that that policy has the approval of the Legislative Assembly.

Dr. Jeidels: It is not meant to be a criticism of Government for dump something which otherwise would have to be done by private capital. I would only say that the capital market has to take care of those demands, whether they are satisfied by Government or by private enterprise. Take for instance a power scheme—whether it is done by a private company or whether Government finds the money, makes no practical difference.

Chairman: His point is that the requirement has to be met, whether it is met by Government agency or private enterprise.

Lala Harkishen Lal: I have just a few questions. You said that debentures may be listed on the Stock Exchange. So far as I can see, we have only two active Stock Exchanges, one in Bombay and the other in Calcutta. Do you recommend that there should be more Stock Exchanges in the country?

Dr. Jeidels: No.

Lala Harkishen Lal: You say that only two are quite sufficient?

Dr. Jeidels: I do not deal with the question at all.

Lala Harkishen Lal: Does it not imply that if these things have to go through?

Dr. Jeidels: If there is a regular demand upcountry to buy and sell securities, then, in those places, I think there ought to be Stock Exchanges.

Lala Harkishen Lal: How is a Stock Exchange brought into existence?

Dr. Jeidels: They are generally started by Chambers of Commerce; on the European Continent, they have taken the initiative.

Lala Harkishen Lal: You have mentioned two sources from which further capital may be got, one foreign capital and the other the hoarded money. Would you add any other source to those two? For example, we believe that the national savings of the country are appropriated largely by Government loans, cash certificates and so on. Don't you think that some portion should be left over for commercial banking and industrial banking?

Dr. Jeidels: The problem has two sides; one is whether the competition of postal savings institutions is quite fair and ought to be encouraged. The other side is what should be done with the money collected in this way? Should it be credited in the Treasury and used like the proceeds of every other kind of Government loan, or should it be devoted to economic purposes of the country? As regards No. 1, I approve of the policy of savings institutions. As regards No. 2, I think, if these deposits increase, it is worth considering whether part of that money should not be led back into the economic life of the country from where it comes. I compiled some figures about savings institutions in my own country—they are not Government institutions, but public institutions, mostly municipal—, what they do with the savings deposits, whether they go entirely, directly or through investment in Government securities, into the treasuries. If the amounts increase, I think the policy in India ought to be reconsidered.

Dr. Trip: May I ask here: Do the Government use the money they get from their postal savings certificates for their capital expenditure?

Chairman: That is right.

Dr. Trip: It is not used for the normal expenses but for their capital expenditure, and for that the Government would be entitled to go into the investment market in order to borrow there the money required. So that there is no difference. If the Government were to invest those monies in private bonds and debentures then the Government would have to borrow more money in order to carry out their programme of capital works.

Lala Harkishen Lal: Some of us hold the view that in spending this money on capital works the Government is inclined to favour one kind of undertaking more than others. We feel that the national growth ought to be more harmonious on all sides. I mean that the growth is rather lobsided. Too much is spent on railways, for instance, while other things are overlooked. Suppose there is something in the view we hold, ought not then these monies collected by Government to be more equitably apportioned?

Chairman: Before he answers I would like to say that this is a question of Government policy and policy which is approved by the Legislative Assembly, and although I should have been delighted to ask Dr. Trip to place before us his criticism of the present action of Government, the solution of that does not really lie in our hands.

Dr. Trip: I thank you very much, because if you had not said that I should have said the same thing.

Lala Harkishen Lal: Then there are other sources from which we can possibly have more money placed at our disposal. I mean that insurance, exchange, freights, etc., are now largely appropriated by foreign agencies. Suppose we jumped in there, don't you think we would have more money avilable from those sources for better banking facilities, for industries and trade generally?

Dr. Jeidels: I have studied the report of the Actuary in regard to the insurance funds. The insurance funds of foreign companies are also invested in this country.

Lala Harkishen Lal: I am thinking more of insurance for marine and fire.

Dr. Jeidels: The premium reserves for insurance, whether it is done by Indian or foreign companies are kept in this country so far as their Indian business goes.

Mr. Sarker: There is no legal provision.

Mr. Khaitan: Do you think there ought to be legal provision for that?

Dr. Jeidels: I do not wish to express an opinion about it. I only know that the insurance companies hold about 50 crores in Indian assets.

Lala Harkishen Lal: Mostly Government securities?

Dr. Jeidels: Yes.

Mr. Khaitan: May I take it that in your opinion if there was such a provision in law it would be quite fair and equitable?

Dr. Jeidels: I think it would be worth considering.

Lala Harkishen Lal: There is another suggestion which is sometimes made and is quite in keeping with the views we have been expressing, and that is that if the money lenders, the indigenous banker, the Joint Stock Banks and the Exchange Banks and the Imperial Bank were somehow or other linked together there would be more reserves available for capital.

Dr. Jeidels: This has nothing to do with the capital market.

Lala Harkishen Lal: What I mean is that all these various parties have to keep decent cash reserves independently of each other, but if that were all pooled together the total required for the purposes would be less.

Dr. Jeidels: But it would not be available for capital.

Lala Harkishen Lal: But it would be available for banking facilities?

Dr. Jeidels: Yes, for banking facilities.

Lala Harkishen Lal: Now, a last question. You recommend the introduction of foreign capital more largely if we want to progress in the industrial line. Would you kindly say on what terms it would be right for us to get foreign capital into this country?

Dr. Jeidels: I can make only a very general remark. I do not see any objection to take in more foreign capital if it is for really important purposes of development of national resources.

Lala Harkishen Lal: In 1909 when I was in London a friend told me to beware of foreign capital for the reason that it is apt to monopolise the whole field. What therefore I want to know is whether capital introduced on a monopoly basis would be helpful to us, or rather would it not be better if we got the capital by way of loans on reasonable rates of interest?

Dr. Jeidels: I would prefer the later.

Lala Harkishen Lal: But now I am asking you how can we get that, have you any suggestions?

Chairman: I do not want to interfere but that is a question which Dr. Jeidels has answered in reply to Mr. Ramdas Pantulu on a previous occasion.

Lala Harkishen Lal: That is all right, but I am asking how we should get that capital. I have certain suggestions to make. For purposes of development the Canadian Government backed debentures and bonds in the London market. I was told that by a Canadian expert who came to the Punjab in connection with an iron and steel scheme which was being put through by a European syndicate. He told me that if the Government of India would back debentures in the London market on the Canadian model we could get all the capital we wanted for development purposes.

He had not one case but several cases. He himself was a Canadian. They applied to the Government of India. The Government of India said that they had not done it before, that it would be a departure from their policy and that they must ask the Secretary of State. Therefore the matter was dropped. The fact is that the Canadian Government had been doing it, and some people believe that they are still doing it. Do you recommend anything of that kind as really helpful to the introduction of foreign capital into this country?

Dr. Jeidels: I do not like the Government going round in any country and trying to find money for industrial or business purposes. There are many practical possibilities for India to get foreign capital; the country is using a very large amount of foreign capital, and I do not see why it should not continue.

Mr. Cassels: About the Canadian Government guaranteeing Industrial Banks, I have not heard of it.

Lala Harkishen Lal: I will be able to produce proof.

Mr. Khaitan: Dr. Jeidels, you hape been advisini us that foreiyn capital may in certain circumstances be good for the country. Do you think it would be advisable to have some scheme whereby foreign capital may be used for the purpose of carrying on the work of the Exchange Banks which are at present engaged in the financing of foreign trade and the internal capital, which at present goes to the financing of foreign trade is utilised for the development of industries instead of foreign capital being utilised for developing internal industries?

Dr. Jeidels: It would mean to replaee the share capital of Exchange Banks devoted to foreign trade finance. The capital invested in foreign exchange business are the shares of those banks.

Mr. Khaitan: That is not the position in India. The Foreign Exchange Banks that are operating here have got their share capital at the place of origin. They are here trading on deposits received in India. Generally speaking most of their businesses is carried on with internal capital. You have said that in certain circumstances foreign capital may be good for the development of the country. I do not want to express my views on that one way or the other. I am not talking of racial discrimination, but I am putting an economic question. Don't you think some scheme may be devised whereby foreign capital may be more utilised for the purpose of financing foreign trade, and the internal money that is at present going into the Exchange Banks for financing foreign trade may be made available for the development of industries inside the country so that what is supposed to be the bad effects in both may be got rid of?

Dr. Jeidels: These deposits are put in the bank as deposits and are not earmarked for foreign trade. These 70 crores would certainly be available for other investment if the depositors instead of putting their money in the Bank, would buy securities.

Dr. Trip: That is available for investment.

Dr. Jeidels: Deposits with Foreign Exchange Banks or with the Imperial Bank or with the Postal institution or the Joint Stock Banks are no doubt the same kind of capital and cannot be distinguished as deposits with this or that group of banks; they are all bank deposits.

Mr. Khaitan: Supposing we are able, by putting our brains together, to evolve some practical scheme.

Dr. Jeidels: A practical scheme could only be to appeal to the depositors who now deposit their money with the foreign exchange banks.

Mr. Khaitan: If it is satisfactory to the depositors, do you think that would be a correct way of putting our brains together for finding a solution?

Dr. Jeidels: Every depositor in a bank, whatever kind of bank it is, may, of course, be persuaded to do something else with his money than to deposit it with a bank. If you work out a scheme which makes it more desirable to bank depositors to have their money invested in some other way than in bank deposits, you may try such scheme. None has occurred to me. In writing the memorandum and estimating the size of the capital market, I included the bank deposits as available for investment. I assumed that everybody who is a depositor at the moment, with whatever bank it may be, may be persuaded to invest his money, deposited at present with a bank, in some other way, if something more attractive can be offered to him.

Mr. Khaitan: There is nothing inherently wrong in what I have said?

Dr. Jeidels: There is something inherently wrong, if you think of any other way than appealing to the depositors.

Mr. Khaitan: I did not suggest that. Supposing we can evolve a good satisfactory scheme. I am not thinking of any legislation . . . . .

Dr. Jeidels: Legislation for this purpose would be very difficult.

Mr. Khaitan: I am not thinking of wild schemes of that character. Supposing we evolve a practical, good and satisfactory scheme that would satisfy the conscience and the intellect of the depositor. There may be nothing inherently wrong?

Dr. Jeidels: No.

Dr. Hyder: How do you raise capital in the foreign markets for German industries?

Dr. Jeidels: It is mostly done in Germany by issuing bonds in foreign markets; it has been done in this way for large amounts.

Dr. Hyder: Do the Banks give any guarantee?

Dr. Jeidels: No.

Dr. Hyder: Any industry works up a scheme and offers it for subscription?

Dr. Jeidels: Two banks in Germany have issued their own debentures on the Swiss pattern. There exists in some countries a system of bank debentures. Swiss banks for instance, and to some extent Swedish Banks and, principally in the past, Hungarian and Austrian Banks issue bank debentures. These debentures are different from long term industrial debentures, inasmuch as they mature in 5 years or 10 years. The two German Banks mentioned have issued such debentures for 25 and for 15 million dollars respectively.

Chairman: These supply long term loans to the industry?

Dr. Jeidels: They are intended to supply long term credits; it is an experiment the success of which is not yet quite assured. The Swiss Banks follow a different purpose and use the proceeds in their short term business; it is an old practice there and a very popular method of attracting special classes of savings.

Chairman: One is a long term advance to the industry, the other is for a short term purpose.

Dr. Jeidels: Yes.

Dr. Hyder: Are there any restrictions imposed by your country in case an industry wants to raise such a loan in foreign countries for the purposes of the industry?

Dr. Jeidels: There is a certain control. I do not enter here on the interesting problem whether a country ought to import foreign capital. In my country where capital had practically disappeared owing to post war inflation, it has been considered necessary by individual business enterprise and also by Government in its various forms to get capital wherever available. But as it is doubtful to what extent a country ought to be indebted to other countries, there is a regulation since 1925 or 1926, by which Government permission is required for municipal, state and provincial loans issued abroad. For private industrial bonds only a sort of expert opinion of the Central Banking Institution—the Reichsbank—is required.

Dr. Hyder: Opinion of the Central Banking Institution about the soundness of the venture?

Dr. Jeidels: Whether it is proper for that kind of business to use foreign capital in the form of bonds sold abroad.

Dr. Trip: That is an emergency measure with regard to the present conditions prevailing in Germany—owing to lack of capital in Germany.

Dr. Jeidels: It is an emergency measure; there has never existed such legislation prior to this emergency. The regulation has been changed several times in order to meet the requirements of the case.

Mr. Manu Subedar: Do you have control by Government of export of German capital abroad? You had it during the immediate post-war period.

Dr. Jeidels: In a way; there was a regulation for money going out of the country; it was not prohibited, but subject to certain controls partly by the Reichsbank for currency purposes, partly by the Income-tax authorities.

Mr. Manu Subedar: And the Central Banking Institution was expected to express its favour or disfavour of such export of capital?

Dr. Jeidels: No.

Mr. Manu Subedar: Does regulation or control of export of capital exist in any European country now?

Dr. Jeidels: If the Bank of England does not consider the time appropriate for floating foreign loans—that is a kind of export of capital—, it intimates this opinion to the issuing houses. It is not forbidden and there is no law which could forbid it. But friendly advice is given by the Bank of England to the issuing houses which is as good as law.

Mr. Manu Subedar: The purpose I had in mind is this. I want to know whether agents of foreign Governments and foreign concerns, foreign municipalities or foreign industrial concerns, are allowed freely to advertise the prospectus and canvass for German, Dutch, French or English capital, and whether there is any control or regulation as to the amount or as any other national from purchasing these securities?

Dr. Trip: No.

Dr. Jeidels: There is this kind of embargo which the Federal Reserve Banks in U. S. A. also exercise. If a foreign loan is advertised in New York, a German loan or a Hungarian loan, then capital is exported from the United States to Germany or Hungary.

Mr. Manu Subedar: Would you allow French bonds for example, or New Zealand forests bonds being sold freely in Germany?

Dr. Jeidels: Certainly.

Mr. Manu Subedar: Is it the same in all European cuontries?

Dr. Jeidels: In Germany at least it can be done.

Mr. Cassels: It is the same in England.

Mr. Manu Subedar: Is it the same in all European countries to your collective knowledge?

Dr. Trip: There is this restriction that the Government has to allow the quotation in the stock exchange.

Dr. Jeidels: But there is no prohibition for the individual to buy.

Mr. Manu Subedar: The stock exchange gives quotations for foreign securities?

Dr. Jeidels: It does.

Mr. Manu Subedar: The transaction is done openly?

Dr. Jeidels: Yes.

Mr. Manu Subedar: There are no restrictions either on the individual or otherwise?

Dr. Jeidels: No restriction on the individual. There is only the policy about foreign issues.

Chairman: The Bank of England may arrange with the issuing houses not to issue a loan?

Dr. Jeidels: Yes. In Germany, for instance, there is no legal restriction to issue a foreign loan; but some central authority might intimate to the banks that it does not consider the time or the object as suitable for such issue; it is a question of policy. In France also such policy is quite openly exercised.

Mr. Manu Subedar: We know a lot more of England. I should like to know what is the position with regard to other countries. Would you allow, let us say, an invitation to Dutch capitalists to buy South Africa bonds free? Would the Bank or the Government as a matter of policy or practice prohibit it?

Dr. Trip: The position is absolutely free, even in Dutch banks, as a matter of policy. It is only the Stock Exchange management who look into the question if it is a real loan, and if people are not cheated. If it is a real loan there is no objection whatever against even the quotations of such loans.

Mr. Manu Subedar: The Dutch Banks as a matter of fact place on the Dutch market Dutch colonial securities?

Dr. Trip: Yes.

Mr. Manu Subedar: Would they place on the Dutch market any foreign securities?

Dr. Trip: Oh yes. They even placed on the Dutch market a rather big amount of Cuban loan which was intended to help the Cuban sugar factory which was at that time the biggest competitor of the German sugar factory. Public opinion was not very much for financing that country, but the banks did it and the public accepted it and it has been in the stock exchange.

Mr. Manu Subedar: Would the same opportunities be permissible for placing Indian loans in these markets?

Dr. Trip: Yes.

Mr. Manu Subedar: Would you help us then with some constructive suggestions as to how it can be done?

Dr. Trip: I think that the best thing to do is for the representative of the special interests that want to raise money in this country to go over to Holland and enter into conversations with the Banks, survey the position and see whether it would have success or not. But there would be no limitation and restriction on their buying.

Sir Purshotamdas Thakurdas: You say in your memorandum (page 5) that you have audited the statistical figures. I have tried to take these figures and to bring out the unknown factors, which you have referred to in the end. Your first item is 76 crores—paid up capital of joint stock companies.—Your next item is 400 crores of Government securities. The next one is 70 crores for municipal and port trust loans, and the fourth one is 300 crores deposits with banks and the post office. The total of this would be 1,046 crores. I do not know why you exclude treasury bills.

Mr. Jeidels: It would be a duplication, because the deposits are partly invested by the banks in treasury bills.

Sir Purshotamdas Thakurdas: It is not all treasury bills. However, that is a small thing when we are counting 200 crores. In this total of 1,046 crores are not included (1) sterling capital actively employed in India, (2) hoarded money, that is, I suppose you mean gold and silver which is in hoard, (3) co-operative deposits, and (4) the indigenous bankers' and money lender's money. These therefore are uncertain factors. Now the total of 1,046 crores works out per head to Rs. 31. Can you tell me a similar figure for investments in other countries?—There are such estimates, but I do not have any material with me.

Sir Purshotamdas Thakurdas: What I want to compare is how broad the investment market is as compared with the needs of this country in comparison with their actual existence in Canada, in Holland, in Germany, and other countries. Your conclusion is that the investment market as it exists in India is not one about which we need be ashamed. I want to show how imperfect it is and how unsatisfactory it is—It requires certain criticism of methods, and it therefore takes some time to prepare such estimates.

Sir Purshotamdas Thakurdas: We know that 1,046 crores in this method includes an unknown factor which we will have to guess. What is it in other countries where it is shown that there are better and more up-to-date statistical data?—Figures for such statement are available, but I doubt whether I can gather them from the material which I have with me in India.

Sir Purshotamdas Thakurdas: Before I, as an Indian, can accept this, I would like to know where we stand. What is the proportion as compared with toher countries?I shall see what figures for other countries I can make available. With regard to India I have tried to be careful in arriving at the estimate offered.

Sir Purshotamdas Thakurdas: I do not take exception to what you have said. If our investment market in India is broad enough or reasonably broad for the requirements of this country, we ought to know how it compares with the investment markets of other important countries. I wonder if Mr. Cassels or Dr. Trip could help us—*Dr. Trip*: It is very difficult. *Dr. Jeidels*: I think there are some estimates in Germany about it, not only on the total capital of the country, but also the part of it which one may consider as investment market.

Sir Purshotamdas Thakurdas: If you would agree in the method of assessing this and use it for India and for two or three other countries of the world, then the reasoning has a value for us. We would like to know how we stand in regard to the other countries—If I cannot supply the figures here, I shall communicate with Mr. Ayangar from home. As interesting as such comparison is, I would like to draw the scope somewhat narrower. My object is not to show the capital market of this country compared with other countries, but whether the field is large enough to justify the banking institutions of this country to enter the field of industrial finance. That was my only object in offering an estimate of the Indian investment market.

Sir Purshotamdas Thakurdas: It may be too small; therefore we must have comparisons—It may be too small, but my impression from the figures is that banks, such as the Imperial Bank, could do the same

business as our banks in Germany do if they begin to cultivate it. I try to find out whether those conditions exist here, at least to an extent, which make such kind of banking possible in other countries.

Sir Purshotamdas Thakurdas: The figure of 1046 crores may be too big, but compared with the size of India and the requirements of 320 millions of people, it may be too small. I do not know how this can be put forward. If I wanted to do it in the form of a report, I must have some data of the figures in other countries,—I would not recommend to use my figures beyond the investigation of the problem, whether India has a sufficient capital market to warrant the entering of banks into the field of finance. If there is no capital market, one cannot suggest to a bank to try to place or to encourage debenture issues. Should you propose a general statement about the investment market in India in comparison with others. I would not recommend to use my figures just as they are collected to show that banks in this country are strong enough for the kind of business under discussion.

Sir Purshotamdas Thakurdas: Why then do you include Government securities and Port Trust and Municipal loans —Because they constitute capital investment.

But they are not industrial—Why should not those who invest in them buy industrial debentures?

Sir Purshotamdas Thakurdas: The man who exposes his capital to a little risk and tries to earn a higher dividend may lose his whole capital. The one who is satisfied with a smaller return of 4, 5 or 6 per cent., as the case may be, on municipal or Government paper, will not look at anything else—I am aware of the fact, that in this country the public are used to invest principally in Government securities; but I have no doubt, that there exist not few investors, who adhere to the principle of diversified investment. The most primitive investment is hoarding; the counterpole is the diversified investment in securities. Those who cherish a diversified investment are most readily available for purchase of industrial securities. How large the amounts available are, I think no statistics, but only practical experience, can show.

Sir Purshotamdas Thakurdas: You are looking at what is available to an industrial bank as you call it or to industrial banks and not to Port Trust or Municipal funds. Those who invest in them do not invest in Government securities—I admit that the public outside of business sphere generally prefer Government securities. But even if you take this as a general rule, I believe that there still remains a field for industrial finance. I have emphasized that banks cannot enter the business of industrial finance safely without the existence of a capital market, and therefore, wished to strengthen my argument by eventually furnishing the proof or at least forming an opinion, that this indispensable condition exists in India. You know that one of us has reserved his opinion on the question whether conditions here warrant the banks entering this field; I fully appreciate such reservation and wished the more to be prepared to argue that a sufficient number of investors are available to buy securities resulting from industrial finance.

Sir Purshotamdas Thakurdas: There is nothing like 700 crores which you give.—It is not necessary to have 700 crores available.—I only argue that the investment field lies inside of those 700 crores and with the investors who hold them.

Dr. Trip: Is there not a possibility of a change? As industry commands the confidence of the public, the class of people who are prepared to invest in them will come with experience.

Sir Purshotamdas Thakurdas: Then it is a question of hoping that it will increase in future. It is not a question of taking the complete figures for to-day, which is nothing like 700 crores, but only 275 crores—*Dr. Jeidels*: I cannot agree with your rather hopeless statement.

Sir Purshotamdas Thakurdas: We are talking of the fact, *viz.*, that to-day the investment in shares and joint stock companies of all sorts, including industrial banks, insurance and everything is 276 crores of rupees. These are the actual figures: I wonder why you have taken the value of shares in the hands of the public at 125 crores. You have taken it at 95 crores and say that some of them stand at premium—I have deducted those shares which I presume to belong to managing agents.

Chairman: If it is not 276 crores, then undoubtedly the position is that the whole of the 276 crores is not in the hands of the private investor and according to your assumption, it is only 125.—The best organization I ever saw for distributing investment and educating the investing public, is the National City Company of New York. Among their clients there are certainly many who had to be educated from investing exclusively in railway bonds to an investment of a more diversi fied nature and a higher average yield. I would recommend to Sir Purshotamdas Thakurdas not to take an unfavourable view about the capital market; it could only result in discouraging the banks from entering the field of industrial finance. Even if one is not optimistic about the immediate results, one is entitled to hope for the future.

Sir Purshotamdas Thakurdas: I was only trying to understand the present and in India how far we should be hopeful or pessimistic is a matter of opinion—It is the question whether one may expect a bank like the Imperial Bank to enter the field. If an optimistic opinion on the capital market is really proved to be unjustified, then, of course, the bank cannot enter the field.

Chairman: I think that Dr. Jeidels has told us that attempt should be made to educate the Indian investor to put his money in industrial investments as distinct from investment in Government securities. Now if we take the requirements of the country as a whole, that is the requirements of Government as well as of private industrial ventures, and if we can get people to show a preference for private industrial investment rather than for Government securities, then obviously the Government will have to borrow more in foreign markets, and that would not improve the situation. In the next place there is bound to be always a class of people who prefer to invest in the safe form of Government securities. Recently in London I was told that there is a class of people who won't touch any securities other than Government securities, and I think I am correct in assuming that that is the position in every country.

Dr. Jeidels: That is so in every country.

Chairman: Therefore the education of people in that respect is not really a solution of the problem. I agree that the figure of 145 crores does not make us feel very optimistic about the possibilities of private

investment to a greater extent in these industries. But even assuming that that were possible, that does not in any way help us in regard to the importation of foreign capital, whether to meet Government needs or the needs of private industries.

Dr. Jeidels: With regard to foreign capital for industrial needs I do not know whether there are instruments for getting it.

Chairman: I have not mentioned that because instruments may be available. Some of these joint stock companies may try to raise loans in foreign markets. I believe Tatas have successfully floated debentures in foreign markets. So I am not sure that instruments are not available. It may be done through one of the Indian banks or it may be possible to do it through an Exchange Bank. I am merely trying to pursue the matter from the point at which we left it before lunch. I think your idea firstly was that the investment market in India cannot be looked upon in any derogatory way from the point of view of investment alone. Then I think you said that if we educated people to take more interest in these industrial schemes than in Government securities, in which the statistics show they invest more largely, that might make more capital available internally for purpose of investment in these industries. Well, there is the other difficulty. If that did happen the Government would have to borrow more largely in foreign markets, assuming that Government requirements for capital stand where they are now. But that is a question for Government. If Government says they will not take so much capital from the Indian money market as it now does, then obviously more capital will be available internally for these industries. I know it is an argument which has often been used against Government. But as I said the capital required by Government is after all discussed and settled in the Legislative Assembly of the country. It may be that that Assembly, according to Lala Harkishen Lal is not properly constituted, but the solution of that matter does not lie here. It is being pursued elsewhere.

Dr. Jeidels: If you assume that industrial debentures will take away some of the money from Government securities, then, of course, and to that extent Government has to find some other market.

Chairman: That was my point. If Government requirements remain the same, and if by propaganda or special inducement a large share of the local capital is transferred to industries not run by Government, that does not help the country as a whole. It means large Government borrowings outside the country.

Dr. Jeidels: In my country there has always been competition between Government issues—in which I include municipal, state and federal loans —and private ventures in the investment market. Indeed competition, is rather keen because about 50 large municipalities come separately into the market. If only a limited total amount can be raised in the Indian market and the rest has to be found in foreign markets, for the country as a whole it remains the same whether Government borrows outside or the industrialists. It is the concern of industry to look to its own finances and it must not be put in the corner by Government needs. It is a quite fair and necessary competition: Industry ought not to be satisfied to have to stand aside because Government needs money. I do not dispute what you have said, I am only enlarging on it a little.

If the public can be educated to take up more high-class industrial debentures then Government will look out as to find money elsewhere, and industry will have pushed itself into a more prominent place in the financial market.

Chairman: In that regard I think I have already drawn attention to the fact that the preference for Government securities is not special to India. You have admitted that and I am not sure any amount of education will help the situation. I suggest that it depends largely on the amount of available savings a man has. However you may educate him, if his savings are limited and he wants to invest for the benefit of his children he will probably always feel shy of industrial securities and will prefer Government securities, which give him a safer return He does not want so much to speculate and increase his holding, as to have it safe at a moderate interest for the benefit of his old age or family. And in a country like India where individual wealth is very limited that factor will always operate in spite of any education.

Dr. Jeidels: I may draw your attention to a fact of importance to the capital market in this country; the broader imagination which Government has shown by inventing attractive securities to the market, a spirit which industry has not shown. Industrial bonds offered are more or less uniform, 6 or 6½ per cent. debentures with no special attraction. What also calls for criticism is the small size of most debenture issues; it is scarcely possible to create a real market for small issues. Industrial debentures at present are indeed, on the whole, not sufficiently attractive to the public, compared with Government securities. It is not so different in my own country where especially the municipalities have shown a marvellous sense for invention of attractive securities. To give the public a similar choice of industrial debentures is in my opinion the banks' business; they ought to offer a richer menu to the investor.

Mr. Cassels: I understand from this conversation that Government securities are very much sought after in this country.

Chairman: Among a certain class of investors.

Mr. Cassels: And Dr. Jeidels says that the Indian Government provides a very select bill of fare for that purpose. Having regard to these facts, it seems to me that the rates of interest the Government offers are unduly high. It is not so much that the debentures of industrial companies are too low, but that they are too low in comparison with Government securities. It is quite natural for an individual to say, "I can get 6 per cent. on Government securities and 6½ per cent. on an industrial debenture. I will neglect the ½ per cent. and go for safety. How is it explained that Government offers such good terms—I mean year in and year out they offer such good terms?

Chairman: It would not be possible for me to answer that question. It is really a matter for Government, and as I say, the solution cannot be arrival at by the Banking Enquiry Committee but perhaps by a change in the present machinery of Government. But that we cannot discuss here.

Mr. Cassels: I wondered why it was so different in India to other countries, where we know Government securities offer a very low rate and therefore do not compete with joint stock and other industrial ventures.

Chairman: The answer to that may be that under the present system of Government people are not willing to provide money for Government requirements except at these comparatively high rates of interest. That may be the solution. The only other answer would be that Government are doing this because they do not take careful steps to catch the money market at the right time. That would obviously be the other answer, that Government are doing something which is certainly wrong for any Government to do. Still, I find it difficult to answer it in that way. Therefore perhaps the answer is the first one I suggested to you. I can only make a suggestion. I cannot produce a clear-cut answer. To do that one would have to ask the Finance Member of the Government of India to come before us and explain the position.

Lala Harkishen Lal: Not a past Number? (Laughter).

Chairman: Well, the past Member raised a loan on which certainly he did not pay the rate of interest which has been paid since.

Mr. Manu Subedar: The volume of capital borrowing on the part of Government could hardly be outside the discussion of this Committee.

Chairman: I am not sure on that point. There are the facts, but it is not for us without anything before us to discuss why Government was compelled to take this action.

Mr. Manu Subedar: We can mention whether this action on the part of Government—whatever the reasons which dictated that action—has had a favourable or unfavourable influence on the development of industry.

Chairman: It may have an unfavourable effect on investments of capital in industries, in banking. As it is, if Government borrows the money it goes into the Imperial Bank, and one bank benefits, certainly for a limited time.

Lala Harkishen Lal: For a very short time it goes into the Imperial Bank and it comes out of the Imperial Bank for the time being.

Chairman: You are quite correct, and helps trade and commerce for the time being. It is there, till Government wants it to meet its own expenses, it may be for the building of that railway which you don't like. There again it is probably providing employment for a certain number of people in this country and it becomes a policy of Government, and it is not for us to discuss the policy of Government.

Mr. Manu Subedar: Not the policy but the consequences.

Chairman: Certainly, you may be justified in saying that it would have this effect. Even so, if Government has in the past been spending large sums of money for its capital purposes and in this matter has the support of the Assembly and the support of Advisory Boards on one of which I think my friend to my right has sat, it is not a matter for us to discuss.

Lala Harkishen Lal: You stated that the speculative debentures have not been preferred by yourself against the non-speculative, and that the industrial debentures are speculative. We do not agree with that.

Chairman: From my point of view I want to make a permanent investment. I know of course that 3½ per cent. paper which years ago I bought at 80 are now down to 65.

Lala Harkishen Lal: I am not questioning your wisdom but your statement. I want that that should not be taken down as the Committee's opinion.

Chairman: I did not say that it was the Committee's opinion; I was only expressing a personal opinion.

Sir Purshotamdas Thakurdas: On page 7 you end up with this sentence: "If the country can or will not make hoardings or foreign markets available for those investments which supply the capital needs of industry and agriculture, neither the banking system nor the individual banks can be blamed for slow progress".

You mean slow progress regarding the economic development of the country as a whole?

Dr. Jeidels: Particularly industrial development.

Sir Purshotamdas Thakurdas: You have told us your opinion about foreign capital being good for India.

Dr. Jeidels: I am not sure on this point; please take it as an advice within limits.

Sir Purshotamdas Thakurdas: I understood from the very start that you advised us to keep on the foreign capital in the country and not to bang the door against the further inflow of foreign capital. I understood you to say "Do not disturb the foreign banks and foreign institutions which afford finance in the country".

Dr. Jeidels: Yes.

Sir Purshotamdas Thakurdas: Therefore, your point is that the capital which we have from abroad is good for the country?

Dr. Jeidels: Yes, you have it anyhow, you live on it.

Sir Purshotamdas Thakurdas: Therefore, don't disturb it?

Dr. Jeidels: Yes.

Sir Purshotamdas Thakurdas: Then, later on, you said what would imply that there are other ways of attracting foreign capital. Is that what you mean?

Dr. Jeidels: I did not mean that.

Sir Purshotamdas Thakurdas: Then I think we had best leave it at that. If your point is don't disturb what you have at present and you stop there, I have no more questions to ask.

Dr. Jeidels: I say the following: if hoardings and foreign markets are not made available, one has to take the consequence.

Sir Purshotamdas Thakurdas: Then the natural corollary from it is make your hoardings available for the betterment of the Indian investment market. Secondly, leave your market open to foreign investments.

Dr. Jeidels: Yes.

Sir Purshotamdas Thakurdas: Then how would you recommend that being attracted?

Dr. Jeidels: I refer again to the hope which I expressed that the banks in this country should cultivate industrial finance. There are many transactions, bond issues, preference shares, etc., transactions abroad, which are entirely harmless from the national point of view. The land mortgage banks, for instance, to which I can exemplify theoretically; why should not banks make use of foreign connections and try to place a series of mortgage bonds, when such institutions will be called into existence, in the London or the Dutch or any other market?

Sir Purshotamdas Thakurdas: What have you in mind, by getting them to subscribe to shares or by getting them to subscribe to debentures?

Dr. Jeidels: I thought of debentures.

Sir Purshotamdas Thakurdas: Debentures with a fixed rate of interest. It has to be attractive before the investor invests. You don't have in mind ordinary capital. Therefore, you do not have in mind ownership going to a foreigner?

Dr. Jeidels: No.

Sir Purshotamdas Thakurdas: Your attach great importance to its being preserved for the Indian national? You personally attach some importance to it?

Dr. Jeidels: It is an important feature in matters in which one is free to decide, one ought to consult the national sentiment.

Sir Purshotamdas Thakurdas: I can very well ask you to put yourself for a moment in the position of a national and advise me as a friend as to what you would do in India. You would not let the ownership go to a foreigner, would you?

Dr. Jeidels: No, I would not.

Chairman: We have now finished with this part and we come to the third part.

Mr. Rushforth: The question I wanted to raise was that of State aid to industries. You refer in the third paragraph to this and say: "There has always been a strong State and municipal activity in industry in Germany". In the provincial reports we have comments on the present position of State aid to industries, and the financial result is not very satisfactory. As you have observed, Government in every case have lost 50 per cent. of their advances. In Bengal Government are just bringing in a State Aid to Industries Bill. State Aid to Industries Act exist in certain provinces and they are speaking of bringing them in in other provinces. In one province the Director of Industries specially mentioned that he found the banking responsibility too heavy. The problem which I wish you to consider is whether it would not be possible to turn these State departments into some form of bank. In fact, instead of acceding to the request of the Director of Industries that he should be relieved of banking responsibility, to make them run these departments on the lines of a provincial industrial bank, or would you say in view of your own experience in Germany that it is possible for the State to carry on this State aid to industries independently of any banking organisation?

Dr. Jeidels: The State Aid to Industries seems to me a rather imperfect matter, and I doubt that it will be much more perfect if it is turned over to a joint stock company. This does not mean that one should do

away with this kind of State aid; it exists and if it functions more or less poorly, it still does a service to one enterprise or another; but I don't think it would change much for the better if put in a more businesslike form.

Mr. Rushforth: You do not think it would?

Dr. Jeidels: The field which this State Aid to Industry cultivates is rather questionable and I doubt whether it would really work in any other form much better than at present.

Mr. Rushforth: You have especially stated that your industrial corporation should not deal with small industries and in your last paragraph you mention cottage industries. Would you suggest that the co-operative organisation might take that over? Would it be advisable in your opinion for the money that is spent on State aid to industries to be turned over to the co-operative organisation?

Dr. Jeidels: I cannot recommend it. I do not think it does any harm that the Government remains a little interested in looking out for industrial possibilities which it can assist somehow.

Mr. Rushforth: Even if their experience is that they lost 50 per cent. of their advances?

Dr. Jeidels: I do not think it would improve much if handled by urban co-operative societies. I would prefer to leave it in the imperfect state in which it is; it does not seem to me to be an element of which much can be made.

Mr. Rushforth: Except that it represents a small amount of money which is available for the development of industries, and if we can use that money more successfully through a banking organisation, would not it be advisable?

Dr. Jeidels: I do not think so, principally out of practical instinct. It is too poor a business for a private bank, which if itself confronted with it as business propositions would probably in the majority of cases, refuse to touch it because it does not consider it safe. The Government may do great service by its encouragement, but I do not think it is a good basis for a business institution.

Chairman: I think Mr. Rushforth's point is this, if he will permit me to make an observation. A provincial Government decides to start in a particular province an industry which does not exist there at the time. These may be industries in the different provinces which may not exist say in the Central Provinces—I am simply giving an illustration—and the Provincial Government may desire to establish, a glass factory in that province, and having decided on the form of assistance it would give, instead of doing it directly it may make use of a bank which is already fairly established in that province and tell them; "Well, we shall guarantee this. You can advance a certain sum of money, up to so many lakhs, to this particular institution and you will be our managers in regard to this particular transaction. We will simply guarantee you either the interest on this particular advance or it may be we will even guarantee the capital advance". I think that was more or less what Mr. Rushforth has in view.

Mr. Rushforth: Yes, I want to have more commercial supervision of the money that Government is spending.

Chairman: Then the bank would be able to exercise more commercial supervision than it is possible for the Provincial Government to provide.

Dr. Jeidels: It would certainly be fortunate if such Provincial Government activity could be administered in a more businesslike way; but I do not know whether either of the ways just outlined by the Chairman is to be recommended,—turning the business over to a bank without risk, just to administer it or by bringing the entire provincial activity under the Act into a special organisation, a joint stock bank for industrial aid. What strikes me as unsatisfactory is, that business institutions handle second or third class affairs which from a business point of view are not quite sound, are more a matter of charity. One may from time to time follow the advice of the Chairman and Mr. Rushforth in order to relieve Government an unwelcome administration, asking the Imperial Bank or any other bank to administer and advance, but from a bank's point of view I would not like it very much. The matter has been discussed in my country, when after the war, with a crippled state of some provinces Government had to take care of this or that business enterprise to save it from ruin. Government tried to persuade private parties to take a hand without risk but only in few cases it found response. The Government's own companies which I mentioned, argued, that they wished to have the reputation of handling only very large proposition, larger than the scope of private business, and that they would spoil their authority in touching such small affairs. The private Banks were afraid of becoming identified with business, which public opinion would consider discreditable. Both arguments have some strength for Indian conditions too, I believe, although a bank may try it in one case or other as a favour to Government.

Chairman: You will permit me to pursue this matter a bit. Don't for the moment assume that I disagree with you or even that I agree with you; perhaps I see a good deal in your objections. If a separate institution were started by the Provincial Government solely for this purpose, that is a Government bank which will only deal with this class of business —it may be called a Government industrial bank, may be the words are not correct but we will call it that for the sake of clearness—if the Provincial Government starts an industrial bank to which it guarantees the capital or interest on capital and makes use of it for this business, perhaps that may be open in a greater degree to the objections to which you refer. But, if there is an existing bank to which the Provincial Government said: "Will you please help us in this matter". As a matter of fact the Provincial Government may get hold of the manager of that bank, its technical experts and the promoters of this company, have a general discussion and then settle what State aid should be given and in what form. Having done so, it hands over the business to the bank assuring it of a guarantee of interest or even a guarantee of capital; that is a matter of greater detail. One effect of that may be that this existing joint stock bank, be it the Imperial Bank or some other bank, may really begin to interest itself in industrial securities. The bank may say: "Very well, we will take up this business", and then with the help of the Government guarantee it can make an advance to this institution; then it can take some interest in the affairs of the institution. Once it starts doing that, it means that it begins to function in the way you recommend. In the starting of new industries the Provincial Government in a degree but not to the fullest extent follows your ideas. It goes to the existing bank, first consults them and says "Here is a proposal before us." Then the Director of Industries, the manager of the bank and perhaps the experts sit together with the promoters of the company and say: "We will give this assistance" and the assistance will be given by an advance through the bank, which advance will be guaranteed in regard to interest or perhaps in regard to

interest *plus* the capital itself by the Provincial Government. Then the bank itself begins to interest itself in that work. Perhaps, at a later stage, having got the securities, it manages to sell them in the open market. So, we follow most of your suggestions but on different lines, and I think Mr. Rushforth had more or less these ideas in his mind when he first started his questions. I should like to know what your considered views are on the problem.

Dr. Jeidels: I do not think it is strictly objectionable. One could try it as an experiment and watch the experience. It will be good to give it as little publicity as possible. To the Imperial Bank it will do no harm, but a smaller joint stock bank lending the name to such doubtful propositions may impair the confidence of its depositors.

Dr. Trip: How long would they invest their money?

Dr. Jeidels: I imagine that the bank could arrange with Government that at three months' notice they might hand the thing over again.

Chairman: My answer to you, Dr. Trip, is this. Your difficulty may be met by Government even guaranteeing the capital debt. Under the State Aid to Industries Act, when Government want to make an advance to a company it finds the capital from its own resources, and that being so, it might even guarantee the capital; it might, if necessary, make a loan to the bank to be used for this particular purpose. That is what it does at the present moment and Mr. Rushforth's point, which is undoubtedly a line of thought which just struck me also, is that this might be done through an established bank; I would not even confine the business to the Imperial Bank. For example, there is Lala Harkishen Lal's bank which may be willing to take up that work. Well then it may play a part not only in the development of industry but in this new field, *i.e.*, doing in the field of industrial investment what you recommend in your paper.

Dr. Jeidels: It may have an educative effect. On the other hand, I am afraid that the banks have not much experience to put at the disposal of Government.

Chairman: Experience will have to grow. Initially Government guarantees everything. Then the education comes in. The bank starts it knowing that Government guarantees it. After all the money is there and the bank says "Let it be wasted; we do not care". You cannot have education unless you start an experiment.

Dr. Jeidels: Try the experiment somewhere, in one province, and see how it works.

Chairman: We can only suggest it. You must remember that perhaps in the new form of Government this will be wholly a matter for the Provincial Legislative Council and of course the Finance Minister there. All these people take the responsibility, and there comes in a first safeguard. The representatives of the people will have to decide. Take for example Madras. They may want to start a glass factory for the purpose of development. They vote the money and the Provincial Government instead of advancing the money direct to the promoters simply makes use of an established bank as its agent.

Dr. Jeidels: As you put the case now, Mr. Chairman, I become a little warmer for the matter, because if such business is kept in the hands of Government it finds its natural death, if it is bad business, not as early as if it is handled by a private party which discovers the deadly disease in time. One ought to try it; it is worth getting experience in this field.

Mr. Rushforth: Did you say that the German Government or the various States Governments have lent out some money in aid of industries? Are they losing money on it?

Dr. Jeidels: The case in India is different, here the provincial Government wishes to start something new, while in Germany Government assistance tried to save some enterprise from the territorial or other consequences of the war, wishing to avoid unemployment and similar result.

Chairman: There is that danger undoubtedly. Here though I have been talking of new industries, emergencies may arise, and Provincial Government may decide to help an existing industry: for example, it may decide to help Mr. Chetty's mills in Coimbatore. My point is that instead of handing over money directly they make use of the machinery of a bank. That was really Mr. Rushforth's point. In that case public interest might be better safeguarded.

Dr. Jeidels: I think there is much in it.

Mr. Shanmukham Chetty: In Madras there is a distinct provision which enables Government to utilise the instrument of a bank by standing guarantee for the grant of a loan to an industry. But they have not made use of it.

Chairman: In one case they took the advice of the Imperial Bank, but it was not under conditions we are envisaging.

Lala Harkishen Lal: You have recommended the formation of a corporation. Would you kindly develop that scheme in the direction of what kind of industries are to be financed. There are what would be called public utilities; then there are what may really be called national industries—such as transport machinery—motor cars, bicycles, tricycles, carriages, ships, and railway equipment. Would you include these national industries or not?

Dr. Jeidels: I would not.

Lala Harkishen Lal: Then there are industries like the ones mentioned yesterday: leather industries, oils and soaps, timber, etc. In all these cases in spite of the advantages of abundance of raw material and a large home market we are depending on foreign supplies. Then there are smaller industries. There is a great demand for example for building material in India owing to the rise in the standard of living. For cheap, good and durable building materials we are more or less dependant on foreign supplies. Naturally the idea comes that if these supplies could to some extent be replaced by country production, the result would be that the people's wealth and standard of living will increase. I want to know whether you would include for purposes of assistance 'rural' and 'urban' industries and the main national industries, or would confine it to public utilities only?

Dr. Jeidels: I will not include the industries which you mentioned. I have tried my very best to persuade myself to a less rigid attitude, but I am convinced that if Government assistance is used to replace individual business enterprise, it is bound to fail.

Lala Harkishen Lal: So you will confine this corporation to public utilities only.

Dr. Jeidels: Something like that.

Lala Harkishen Lal: Have you any suggestions to make to assist the industries I have suggested.

Dr. Jeidels: No. There are enough people in this country with business enterprise, money, intelligence, and experience, to start such business. They will start, as in all countries, in a small way; if they start on too big a basis, they may fail. The deepest impression of my journey through the country was the consideration how even a seemingly insignificant rise in the standard of the agricultural population would stimulate manufacturing industries. I do not see, why private enterprise should not be left to establish itself. Private initiative, it is true, is imperfect, but up to now the best, if not the only approved method to avoid undue loss of capital.

Ch. Mukhtar Singh: You would not even advise Government to start model industries and then hand them over to private people. Government start them and then sell them away.

Dr. Jeidels: I have very little sympathy for it. It may be quite sound in one case or other, but to develop the industrial resources of a country of the size of India I do not think it will be effective. I give this advice from a general economic point of view. If experiments to develop industries in that manner fail, the damage is infinitely greater than the advantages could be at best. Therefore my idea for an Industrial Corporation is to start with some indubitably good proposition or not to start at all.

Ch. Mukhtar Singh: Don't you feel that in the case of new development of industries some industries are bound to fail, and that somebody must suffer, either private or Government. Why, don't you like the idea of the State suffering.

Dr. Jeidels: The individual who is responsible for starting a new enterprise, ought to bear the consequence.

Mr. Jamal Mohamed: On page 8 you say—

> It would be unfair and unjust if money of the Government would be used directly or indirectly to compete with private industry.

What would you then do?

Dr. Jeidels: I advocated that industries should be developed through private enterprise. You know the tanning business very well. If Government or some Governmnet institution would say: 'there ought to be more tanneries', will you not say, 'we have a good tanning industry in the country, and do not want Government competition; the tanning industry will take care of itself'. Government ought not to go into competition with private enterprise.

Mr. Jamal Mohamed: But what about the industrial corporation lending money to some tanneries or cotton mills. I do not mean that Government should directly do it.

Dr. Jeidels: I cannot recommend it for the reasons just stated, and also because I am convinced that if Government goes into this kind of business, it will as a rule be a failure.

Mr. Jamal Mohamed: I should like to correct you. I agree with you that Government should not compete with industries in the country, but what if a corporation, which may receive a little help from Government as far as the financing is concerned, lent money to industries. Supposing you have the industrial corporation and ten mills in Bombay or Hyderabad want finance, what is there to prevent the corporation giving this financial assistance.

Dr. Jeidels: I do not think that Government ought to do what a bank would refuse.

Mr. Jamal Mohamed: Government does not do it directly. It only comes in to this extent that it gives money through the corporation to an industry because it is not able to get money from the public. Otherwise it is no more a Government concern.

Dr. Jeidels: I am not in favour of it. It may be quite sound in one case, but once started it will very soon lead to a number of cases in which such assistance will not be sound.

Mr. Jamal Mohamed: But you don't suggest any solution to the real difficulty which is this, that industrial concerns want finance and banks are not able to give it. Naturally the industrial concerns want long term loans, and banks which have to depend on short term deposits are not able to give such loans. What are your suggestions to help these industries?

Dr. Jeidels: You may be able in some cases to prove the real merit but where is the protection against hundreds of propositions being pressed upon the institution with the argument, that one proposition has been accepted, why not mine? Will the governmental institution be strong enough to refuse financial assistance in such cases?

Dr. Trip: I understand that it is a provincial Government experience that if one started an enterprise with the assistance of Government, hundred people come and compete with the first one, and so the whole thing is brought down again.

Mr. Jamal Mohamed: It will not be a Government venture except for the fact that Government lend money at smaller interest. Otherwise it is not a Government concern.

Dr. Jeidels: It is not Government's business.

Mr. Khaitan: May I ask you where you got that information.

Dr. Trip: It is in Madras Presidency.

Sir Purshotamdas Thakurdas: If Government tried to help one industry others too compete, and Madras Government find that it is best for them to shut down giving assistance to anybody by reason of the competition brought on?

Mr. Ramdas Pantulu: Mr. A. Chatterton (now Sir Alfred), when he was Director of Industries, Madras, started some industries on behalf of the Madras Government, and they were very successful. At that time there was a protest from the industrial people against Government's policy of entering into competition with private enterprise on the lines indicated here. It went up to the Government of India and then the Secretary of State, and there was a despatch from Lord Morley who said that they

ought to discontinue it. Mr. Chatterton protested against it and tried to bring about a change. On subsequent representations Lord Crew changed it. All these despatches are now published. Mr. Chatterton came back to India last year, examined the position in Madras, contributed a valuable paper to the local press and delivered a public lecture in which he said that the Government of Madras had not pursued the original policy, and that if only his advice had been taken, more could have been done. There was no such competition as has been mentioned of a hundred people in a profitable line and eventual closing down.

Mr. Jamal Mohamed: Sir Alfred Chatterton established the aluminium industry because people won't come in to do it. He wanted Government to show the way. As soon as it was established Government withdrew from it. The question we are referring to here is quite different. It is not that of Government developing an industry by itself. It is that of a corporation whose funds may have been helped by Government, helping private industries.

Mr. Shanmukham Chetty: His point is this. Supposing there are half a dozen factories, and all of them are in difficulties and one of them approaches Government for assistance. Government at the moment develops a soft corner in their heart and gives assistance to it. Then others will immediately press for similar assistance.

Mr. Jamal Mohamed: The Corporation which is contemplated will not purely be a Government affair. It may have Government funds, but it is not a Government Department. That is what I want to correct.

Dr. Jeidels: Even if it is not a Government affair, it is an official matter. It must have certain authority behind it, and I think it is not fit for doing that kind of business which you are contemplating.

Mr. Jamal Mohamed: If you eliminate all these industries there will be nothing left.

Dr. Jeidels: I am sorry not to be able to give a different answer.

Mr. Jamal Mohamed: What about the Japanese example?

Dr. Jeidel: Our general opinion is that we do not recommend it for imitation.

Mr. Jamal Mohamed: Are you contemplating one central corporation with provincial branches or only one corporation.

Dr. Jeidels: No branches.

Mr. Jamal Mohamed: It might be located at Calcutta or Bombay or at Delhi. If it is located in Calcutta, Calcutta interests will get a hearing, and Madras will be forgotten. You are not against a central institution with provincial organisations.

Seth Haji Abdulla Haroon: Which are the industries that you want to support by this Corporation?

Dr. Jeidels: If it is not started in a practicable way, it will soon be discredited. The future development depends much on the start of the Corporation. I therefore think it ought to start with something very fine, something which commands the confidence of the public, so that part of the capital can be raised by the sale of debentures.

Seth Haji Abdulla Haroon: If a man with a capital of Rs 50,000 wants to start an industry in Germany, up to what amount would the banks lend money to that Corporation?

Dr. Jeidels: A cigarette factory which you mentioned is a good example. He would start without building a factory; he would rent premises. He would start with his 50,000 rupees, or if that is insufficient, would try to get some more from friends and family; he will try to make it a success on a small scale. If successful, he will find bank loans for some further development. I remember that my bank gave a credit on moderate lines to a cigarette manufacturer, who gradually increased his business and ultimately became for a time the biggest cigarette manufacturer of the country. He started of his own, took only occasionally bank loans and grew slowly but systematically until the banks had to come to him to offer him loans and not he to the banks to find a loan.

Seth Haji Abdulla Haroon: If a man starts a factory with Rs. 50,000 in Germany, is he advanced money, or given credit? Does he give security?

Dr. Jeidels: On starting he would receive loans against his stock of tobacco, scarcely on another basis.

Seth Haji Abdulla Haroon: Here the system is if I buy tobacco, the banks do not lend money unless I have some security in the bank. Then they advance money. Do you suggest that this Corporation also should advance?

Dr. Jeidels: No, the Corporation I would like to see entirely clean of all kind of purely banking business.

Seth Haji Abdulla Haroon: It is the small industries which require help.

Dr. Jeidels: In our opinion it cannot be done by an official Industrial Corporation. The industry which is in your mind will have to start and develop slowly to the first stage of profits. It has been done so in my country and also in the United States of America who offer the finest pattern of modern industry.

Seth Haji Abdulla Haroon: If the tobacco buyer puts that in custody, how much money will he get on it? 50 per cent?

Dr. Jeidels: It depends on the commodity. I cannot imagine that banks here act differently from what I described.

Seth Haji Abdulla Haroon: Joint stock banks and exchange banks here are not lending money like this.

Dr. Jeidels: Then we must refer to the discussion on Commercial Banking, because I think banks could do it and I believe they do it.

Seth Haji Abdulla Haroon: There is no system here by which joint stock and other banks supply money like this.

Dr. Jeidels: If this is the case, I regret it. It is not meant as a criticism, because I believe that banks do give such credits. Banks in this country are always out for good security and tobacco is generally considered as prominent in this regard.

Sir Purshotamdas Thakurdas: Why not say from the information you got that it is not so. If it is so, it should not be so.

Dr. Jeidels: All right.

Mr. Jamal Mohamed: You have been saying that the present commercial banks are not financing industries and for the suggestions made by witnesses for industrial bank you are suggesting this industrial corporation.

Dr. Jeidels: Yes, but it is something rather different from those suggestions.

Chairman: He is really suggesting 3 different forms. Firstly that the Imperial Bank should give assistance in regard to merger, re-construction, etc., secondly, develop the habit of investment in industrial securities by various means, and thirdly, in regard to a particular class of industries, call them new industries, he recommends the establishment of an all-India Industrial Corporation.

Mr. Jamal Mohamed: Is it not as an alternative to the general suggestion made by witnesses that an industrial bank or banks may be started that he is suggesting this Corporation?

Chairman: Not wholly, because the idea of industrial bank placed before us varied; but in its broader sense an industrial bank according to the ideas placed before us was intended to help existing industries and not only to help the establishment of new industries.

Mr. Jamal Mohamed: Is he in favour of starting an industrial bank or banks to help the existing industries?

Chairman: No, only for certain specified industries.

Mr. Jamal Mohamed: Are the masses to contribute and start banks?

Seth Haji Abdulla Haroon: Is Dr. Jeidels against any sort of Government organisation helping them?

Chairman: Yes.

Seth Haji Abdulla Haroon: A private company is started with 10 lakhs to advance money to small industries. Do you think it advisable that Government should help by money or by issuing shares guaranteed by Government? In this case do you think that Government could give guarantee for 5 lakhs shares?

Dr. Jeidels: No, I am sorry to have to be quite negative. Small industries deserve all sympathy, they might have Government assistance in other ways, but they ought not to be financed by Government. Some help through the State Aid Act is unobjectionable, but if it is to be a system, I do not agree. Government guarantee for debentures of such enterprises I really deprecate with the greatest emphasis. Government guarantee is about the worst thing in public finance; I mentioned this only in passing, because we are not occupied with problems of public finance.

Seth Haji Abdulla Haroon: Government have bought Rs. 2 lakhs shares in a sugar factory out of a total of Rs. 8 lakhs. It was done independently of the State Aid Act.

Dr. Jeidels: I do not think I would have recommended it. Without wishing to trespass, I rather think that Provincial Governments ought not to do it.

Chairman: Dr. Jeidels is only giving his opinion as a banking expert on the general proposition, but obviously what he says cannot interfere with the discretion of a Provincial Government. In the case of a particular institution, as an expert banker he would not call it a good banking proposition. A good State proposition depends on various factors apart from a good banking proposition.

Ch. Mukhtar Singh: There are the factors such as education and propaganda. If Government cannot help industries, directly, it may help by giving subsidies, customs etc., but not finance it.

Dr. Jeidels: The other factors amount to helping industry, not financing industry. One of the noblest duties of Government is to render assistance to industry.

Mr. Devadhar: Giving a guarantee?

Dr. Jeidels: That is financing.

Mr. Devadhar: You would not be in favour of any guarantee, and the state of public opinion and education are so low that no industry could be started.

Dr. Jeidels: I do not believe that it is so.

Mr. Devadhar: There is a large amount of illiteracy?

Dr. Jeidels: I do not believe that no industries could be started.

Mr. Devadhar: In spite of the present state of society you would not advocate Government financing?

Dr. Jeidels: I shall continue to refer you to private initiative and to nothing else.

Mr. Devadhar: I am quite conscious of the results of private initiative in this country. You would still be not in favour of Government assistance, although you know as a matter of fact that a little help is likely to promote the industry?

Dr. Jeidels: I am for non-interference as far as financing is concerned. What is done under the so-called State Aid to Industries Act, is more an administrative matter.

Mr. Devadhar: That is only meant for small things.

Dr. Jeidels: I am unable to invent or suggest a new system of State Aid to Industries on a broad line, other than the specific form of Industrial Corporation, on which I have expressed myself in the memorandum and on the positive side of which I may have an opportunity to say a few words later.

Mr. Khaitan: I wish simply to draw your attention to one thing. Many witnesses who have appeared before this Committee have expressed the opinion that in regard to industrial facilities the confidence of the public is not so strong because of the present fiscal policy of the Government. You may consider as to how far the fiscal policy of the Government is also an important factor in determining as to how much confidence the public may have in industrial securities. I am not asking for your opinion.

Referring to the third paragraph of your memorandum on Industrial Corporation, regarding state and municipal activity in industry in Germany, could you kindly give us a rough idea of what these industries are?

Dr. Jeidels: There is, for instance, the aluminium industry. It was started on private lines, but on a comparatively small scale. The aluminium industry on the Continent of Europe up to 1914 was principally in Swiss hands, because in Switzerland the electric current needed was very cheap. During the war when aluminium was a very important metal Government did everything to help the aluminium industry and, as it was an ammunition industry, took the production in its own hands and raised it to a very high level in quantity and quality. After the war Government could have sold it to private hands; but as is well known, in Germany State activity has always been extensive in railways and other public utilities, and therefore Government kept the aluminium factories having practically a monopoly in the metal for domestic production, and has it managed by a joint stock company the shares of which belong to Government.

Mr. Khaitan: This is the principal one. What are the others?

Dr. Jeidels: The others are few, all more or less a residue of the State aid in special emergency cases which I have explained. Some are more some less promising. A detailed report is contained in the annual report of the "Viag", an abbreviation for, in translation, "United Industries, Limited". I shall send the report to Mr. Ayangar for perusal by the gentlemen interested. It is a joint stock company with the Government as sole shareholder. It holds all shares of the single companies, formed for those special undertakings into which Mr. Khaitan enquires. The capital of the apex-company is 10 crores of rupees (150 million Marks).

Mr. Manu Subedar: Don't you have the difficulty of State enterprise competing with private enterprise.

Mr. Khaitan: In addition to state activity you also mention municipal activity.

Dr. Jeidels: Municipal activity has always been extensive, as also in England, where the London County Council has been one of the first Corporations actively engaged in public utilities, tramways, electricity, etc. The form in my country is partly direct municipal ownership, partly joint stock companies with the city as sole or majority shareholder.

Mr. Khaitan: When the State or municipality in Germany want to help concerns of that kind, supposing two or three persons apply for license, and State aid is given under a license, would the State or Municipality give preference to a national of the country or to a non-national of a country?

Dr. Jeidels: The time for starting public utilities is practically a matter of the past, and so the case of somebody applying for a licence happens only quite exceptionally.

Mr. Khaitan: Supposing it happens?

Dr. Jeidels: I may say, that nationals would be preferred.

Mr. Khaitan: And it is considered to be proper?

Dr. Jeidels: Yes, one would prefer nationals; it is proper and natural.

Mr. Currie: It would depend on whether the State or the Municipality do not want to give the proper contract to the cheapest person.

Mr. Khaitan: I do not think you would be able to give a single instance where it was given to a non-national.

Mr. Currie: I know there was a contract given by a Municipality abroad and there was a great outcry.

Mr. Khaitan: In the next paragraph you refer to some countries which have engaged in business beyond railways. What are those countries?

Dr. Jeidels: I suppose more or less all countries. I may mention Italy as an instance. There was a time when it was a matter of principle whether the State ought to enter into the industrial field; the time of fighting about that principle has passed.

Mr. Khaitan: You say on page 8: "An industrial Corporation which would, as the financial success is not assured and the company would almost certainly not for some time appeal to the private investor, have to be financed principally by the Government, must not enter competitive fields of industry". Supposing an Industrial Corporation runs its business on the same principles as a sound bank. What harm do you think would accrue from that Industrial Corporation giving banking facilities to concerns which enter into competitive fields?

Dr. Jeidels: If it means that the competitive field is not strictly avoided, I think it would contribute by and by to kill private initiative.

Mr. Khaitan: I understand your competitive field. You have given examples. Suppose somebody starts a cotton mill somewhere and the Industrial Corporation carries on its business on sound banking lines. What is your objection to that Industrial Corporation helping that industrial concern?

Dr. Jeidels: If it is Government money it should not do it. I repeat my opinion that it would by and by destroy private enterprise.

Mr. Khaitan: May I explain? Supposing an Industrial Corporation advances money to a cotton mill in the Punjab on the same terms as the Imperial Bank advances in Calcutta to a cotton mill, say, at 1 per cent. over the Bank rate. What is the objection?

Dr. Jeidels: If there is no Government assistance, there is no objection. All business men must be prepared for private competition; but that the tax-payer's money should compete with him, ought to be impossible.

Mr. Khaitan: The tax-payer's money competes in this case with the Imperial Bank. It does not matter to the public as to whether the financial assistance is obtained from the Imperial Bank or from the industrial bank.

Dr. Jeidels: I think there is a great difference. If private capital starts or helps a new enterprise, the competition may be unsound or not. But that Government money—whether in competition with the private banks or in any other form—should actually operate to build up a new competition to existing industry, will be highly against the feeling of a citizen. Would it not be against your own feeling?

Mr. Khaitan: It would not be against my own feeling because the country is not highly industrially developed at present.

Dr. Jeidels: In a competitive industry I think this argument does not apply. Consider for instance the jute industry.

Mr. Khaitan: Leave aside the jute industry. There is already a glut in it. Take the cotton mill.

Dr. Jeidels: But the country has got a very fine cotton industry, which is not doing well at present, but not owing to an undeveloped state.

Mr. Khaitan: I would not like to take this along with you. If you take the figures of production of cotton cloth you will find that the cotton mills and the handlooms combined together are not able to supply the whole of the requirements of the country. It is a question as to whether it is of that nature of competition as you would say it is in the case of the jute mills. However, we will leave it at that.

Mr. Khaitan: There should not be a glut in the particular industry in this country?

Dr. Jeidels: It is easy to find out which industries are competitive by asking those who are already active in the trade. If it is understood that the Industrial Corporation before entering a field is to ask the more prominent business men already active in that trade, this seems to me an efficient safeguard.

Mr. Khaitan: So long as there is not a glut in the country of that particular kind of industry, there is no competition?

Dr. Jeidels: Ask the representatives of the trade.

Mr. Khaitan: Page 9, 3rd paragraph. Am I to understand that if the share capital is 10 crores, it should not issue debentures for more than 5 crores?

Dr. Jeidels: For more than 20 crores.

Mr. Khaitan: Have you taken into account that the bank bonds that may be issued—about 50 per cent., of it may be bad assets?

Dr. Jeidels: Do you think that the ratio is too narrow?

Mr. Khaitan: It looks to me like that.

Dr. Jeidels: The reason why I have suggested 2 to 1, it may just as well be 3 to 1, if the capital is not less than one crore, but the ratio ought not to be much larger—is the necessity to establish a credit of its own for the corporation, its own borrowing capacity. If the debenture ratio is too high, the confidence would rest practically only in the belief that Government would always come to its rescue and the confidence of the investor would not rest in the company itself.

Mr. Khaitan: The start should be made with the ratio of 2 to 1 and thereafter the Industrial Corporation may issue debentures in larger measure?

Dr. Jeidels: No, this is technically impossible. You may make the ratio 3 to 1, but I wish to warn against a radical change in the ratio suggested.

Mr. Khaitan: Supposing it is 5 to 1. It gives a 20 per cent. margin for bad assets in order to establish confidence.

Dr. Jeidels: I do not think I can recommend it.

Mr. Khaitan: You will never do it or you will not do it at the start?

Dr. Jeidels: I would not do it. I think the Punjab Mandi Hydro Electric scheme will cost 7 crores. It is an industry where you can put the ratio rather high, but there too I would not recommend to go beyond 3:1.

Mr. Khaitan: That would be a particular industrial concern. But here we are thinking of an Industrial Corporation. They would also sell debentures in the market?

Dr. Jeidels: I am looking at the problem from the rather narrow point of view of the banker who has to sell the debentures of the corporation or their subsidiaries. In going above 2 to 1 or 3 to 1 you will I fear, not gain the confidence of the investing public.

Mr. Khaitan: The ratio would depend upon the amount of capital of the industrial corporation? That is, if the capital is small, the ratio will have to be smaller and if it is big, the ratio could be made larger?

Dr. Jeidels: It sounds illogical, but is quite correct.

Mr. Khaitan: It does not sound illogical to me.

Dr. Jeidels: So much the better.

Mr. Khaitan: Under the present administration of the State Aid to Industries Act, if a provincial Government sets apart a certain sum of money for a year, and if that money is not spent in that year, it lapses. It is not carried forward. The money goes back into the coffers of the Government without forming the nucleus of developing a good banking

institution. The Chairman was pleased to suggest one method whereby the Government could utilise an existing bank for the purpose of giving these loans. Do you think there is a possibility of developing a good provincial bank under the present system of lapses? The interest should go to the Government revenues whereas the principal would remain for a certain number of years for a good banking institution to grow. The remainder invested in a provincial industrial corporation might be administered by Government representatives and business men as you have said here in the third paragraph. If in every year Government is able to grant 5 lakhs, in 10 years it becomes 50 lakhs. Government of course will get interest on the money, but it becomes a provincial bank at the end of 10 years.

Dr. Jeidels: I could not express myself much in favour of the Chairman's and Mr. Rushforth's idea. Your suggestion about the unused amounts of State Aid concerns a point of public finance. I value the educative effect of letting unused or recovered amounts go back to the revenue of the province. It would be particularly educative by stimulating recovery of money which becomes available for a similar purpose.

Mr. Khaitan: You have already said in answer to a question that you advocate a central industrial corporation with provincial organisations.

Sir Purshotamdas Thakurdas: I wish to ask you about the responsibility which is at present incurred by the managing agents here. When you want 5 or 10 lakhs for your current expenditure, the banks expect the mill to sign the pro-note and also wish to have the endorsement of the managing agents. In Europe you have not got the managing agent system. How do banks advance money to concerns there for current expenditure?

Dr. Jeidels: They would, of course, command their own credit according to their position and no second signature would be required. I dislike the present habit in India of the two signatures thoroughly, because it makes the managing agent, with his good and bad features an eternal institution. A self-managed joint stock company ought to have its own credit according to its standing.

Sir Purshotamdas Thakurdas: Let us take a concern which has spent 15 lakhs on its factory. No capital debt. I will take the best institution. It wants 10 lakhs for its current expenditure, for its liquid assets. It has got 3 lakhs out of it and wants to borrow 7 lakhs. It goes to a bank and asks for the 7 lakhs loan. If you do not mind taking me to be that borrower and you to be the bank manager, what would you ask me to do?

Dr. Jeidels: I would ask you to explain the entire position, would discuss with you your immediate bank requirements and consult with you on the prospects of the business under the financial aspect.

Sir Purshotamdas Thakurdas: Taking it to be normal.

Dr. Jeidels: I would recommend you never to rely permanently on a bank.

Sir Purshotamdas Thakurdas: I say that two years later I propose to float a debenture loan.

Dr. Jeidels: If the debenture loan is something like a practical proposition, I will give you bank credit. I am afraid my colleagues here will consider me a very light-hearted banker.

Sir Purshotamdas Thakurdas: I propose to ask all three of your colleagues. What would you do in Germany?

Dr. Jeidals: I would not take your word on the possibility of a debenture loan and would study thoroughly with you whether it is practicable. If I have the impression that in due time, even not before 2 years, a loan can be floated, I would give you the bank credit, because, after all, it is a kind of business which a competitor might take off my hands; considering it as I am inclined to do myself, as sound banking. Therefore I would give you the loan.

Sir Purshotamdas Thakurdas: On what?

Dr. Jeidels: I would probably ask in this case for the deposit of the title deed on the factory.

Sir Purshotamdas Thakurdas: You would ask me to completely mortgage that concern worth 15 lakhs before you consider giving me a loan of 7 lakhs on my liquid assets?

Dr. Jeidels: Yes.

Sir Purshotamdas Thakurdas: You would not as a banker in Germany give me that loan of 7 lakhs on the company's promissory note *plus* hypothecation of the liquid assets worth 10 lakhs?

Dr. Jeidels: Hypothecation of liquid assets is even a better security I wanted to do you a favour by taking the title deeds. If you offer me the liquid assets I would say, "You wish to enjoy credit with your suppliers and may lose it, if they hear that you have given away the liquid security. I am satisfied with the title deed because the factory is running efficiently; if the worst happens I shall have to sell the factory, on which you have spent three times the amount of the loan I am to give to you."

Sir Purshotamdas Thakurdas: Am I clear that you would not advance me that 7 lakhs without taking a hypothecation of the liquid assets or of the factory?

Dr. Jeidels: Yes; it depends also on your personal position.

Sir Purshotamdas Thakurdas: Suppose I am in a specially good position.

Dr. Jeidels: Perhaps you are yourself a large shareholder and in the company a personally wealthy man besides; you may have property allowing you to repay the loan from other resources.

Sir Purshotamdas Thakurdas: If I was a mere employee of the Board as managing director?

Dr. Jeidels: I would ask you at least for the title deeds.

Sir Purshotamdas Thakurdas: For the hypothecation of the liquid assets or the title deeds of the factory?

Dr. Jeidels: For the title deeds.

Sir Purshotamdas Thakurdas: You would not ask anybody's personal signature—the Chairman's?

Dr. Jeidels: No.

Sir Purshotamdas Thakurdas: It would not be thought of in Germany?

Dr. Jeidels: No.

Sir Purshotamdas Thakurdas: A concern would command an advance for liquid finance on its liquid assets or on the block being granted without the personal guarantee of the managing director or of any of the directors?

Dr. Jeidels: Yes.

Sir Purshotamdas Thakurdas: Does the same apply in your case, Mr. Cassels.

Mr. Cassels: No.

Sir Purshotamdas Thakurdas: How would you do it in Canada?

Mr. Cassels: Assuming that I know your business, the first thing that I will ask is, "What do you want this 7 lakhs for?"

Sir Purshotamdas Thakurdas: For current finance?

Mr. Cassels: I would then use my judgment as to whether it is for a good purpose and whether it is likely to come back quickly. Then I would like to see your balance sheet, your monthly account and the history of your account. Then it is a question of judgment, for I would not make an advance without security.

Sir Purshotamdas Thakurdas: Security of block or liquid assets?

Mr. Cassels: Liquid assets—something liquid such as your stock in trade.

Sir Purshotamdas Thakurdas: What is usual in Canada, would you take physical possession?

Mr. Cassels: No, we do not take physical possession.

Do they submit to you statements once a month?—Whatever is usual.

Most of the liquid assets are either raw cotton or manufactured cloth. It is usual in this country to take a margin between 20 and 30 per cent., on the current market value of the cotton and piece goods. Is that usual on your side?—Yes, it is usual to take about 10 per cent. If you come to me for credit for 7 lakhs and if I thought you had good securities, you could have all the 7 lakhs any time you like.

If you thought that the company for which I was approaching was sound —Yes.

Are banks allowed to lend on real estate?—No.

So banks do not finance on landed property or real estate?—Real estate means land.

Or buildings?—Building is another matter.

Sir Purshotamdas Thakurdas: In the case of a cotton mill or jute mill, you would not be prohibited from taking a loan—No, they are not real estates.

But it is more usual to lend on liquid assets than on block?—Yes.

In Germany it is more usual to lend on block—It would be temporary security.

You would not ask for the personal security of any of the managers or of any other persons?—If it were necessary, we might say that the Directors individually guarantee the loan.

But that would be less than second class credit—It would be pretty bad second.

Dr. Trip, would you kindly give us the position in your country?—I may say that all banks in Holland would probably act in the same way as they do in Germany. I am not so confident that, if the management of the bank was not sure that for a term of two years they could not float

a loan in the market, they would be very keen to give the guarantee. I have an impression that our banks would think that to give credit for a term of two years would be too long.

It would not be two years at all. The loans here are at the most for a year, or they are demand promissory notes which can be called at any time—I thought Dr. Jeidels said that even if the management was not sure that it was for a term of two years they would be still prepared to give the loan. I think in that respect two years would be too long.

Dr. Jeidels: We would not give the loan for a fixed period of two years, but if it seemed likely that a debenture loan could be issued, we would not like to lose the customer.

Dr. Trip: In exceptional circumstances when there is a good customer and the bank was very well acquainted with his circumstance, it would be done, but not for a new customer.

Sir Purshotamdas Thakurdas: No personal guarantee would be asked for in the ordinary course?—No.

In fact, if it is asked for it would be an extraordinary thing and difficult for people to understand—Yes, I may say it is never done.

Mr. Currie, may I ask what the procedure in England is?—The procedure in England would be very much the same as Dr. Jeidels mentioned with the exception that if the loan was likely to go on for some time, probably a guarantee would have to be given at the end of the year.

Do you give it for a year?—I should give it for the next period.

It depends on the demand for the finished article.

Mr. Shanmukham Chetty: I do not really understand, Sir Purshotamdas, as to why you tack on this question of raising a debenture within two years. I thought that the 7 lakhs you wanted were for working expenses. If every company was to float a debenture for working expenses, where is the need for any bank at all?

Sir Purshotamdas Thakurdas: I tacked this on because Dr. Jeidels and the others told us that in their countries they would encourage a factory or company to build its own finance.

Mr. Shanmukham Chetty: My point is that if you wanted 6 or 7 lakhs for extending your factory and for spending on capital expenditure and then went to a bank and said 'I can raise a debenture for this within two years, would you accommodate me within this period?', I can understand; but for ordinary working expenses of the factory, why should you raise a debenture at all. Would not a bank in Germany grant the money? You have built a factory, say, for 15 lakhs of rupees and you estimate that the working capital that would be necessary to run it would be 10 lakhs. You have raised 3 lakhs and you want another 7 lakhs to run the factory? Would not the banks advance you this money?

Sir Purshotamdas Thakurdas: I apprehend that Dr. Jeidels' reply would be that he would rather recommend you in Germany to float a debenture loan.

Mr. Shanmukham Chetty: I want to know if it is so.

Dr. Jeidels: Yes.

Mr. Shanmukham Chetty: Where does the bank then come in?—After all we want business and we would not like to lose our customers.

Sir Purshotamdas Thakurdas: Let me put it as Mr. Chetty wants to put. Suppose I wanted 7 lakhs, I would say that next year prices may fall and I may want only three lakhs, what would you do?—I think you are right. You do not have to float it now; we shall wait for better times; perhaps you have a very good year or two and may later require only 5 lakhs credit which you can always get; this situation would make the debenture issue unnecessary.

Therefore, there is a good deal in what Mr. Chetty wanted to put in. If I have a factory with a working capital of 8 lakhs (and required on the whole 15 lakhs) and I wanted to raise 7 lakhs in one year and 5 lakhs in the next year, the industry being normally worked and my respectability being normal, I would command that credit from the bank by merely walking into it and putting my case before you without saying that I propose to raise a debenture loan for the requirements within a year or two. Is that correct?—How are you going to pay?

Five lakhs of rupees is my standing requirement for current finance on a block capital of 15 lakhs with a surplus of revenue capital of 3 lakhs; would you let me have 5 lakhs year in and year out?—In practice you will have it for many years, but I draw your attention to the fact that you get the loan only for 3 or 6 months; the risk of not getting it renewed, is with you.

Mr. Shanmukham Chetty: You are entitled to ask me, if I wanted 5 lakhs, as to how I was going to repay the amount. I ask you to advance me these 5 lakhs of rupees on the hypothecation of my liquid assets and you would be repaid as soon as I have sold my goods.—I wish to know how you mean to pay without winding up your firm.

In the particular case that Sir Purshotamdas gave you, if I borrowed 7 lakhs from you that means I hypothecate liquid assets, say, cotton or cloth, worth 10 lakhs of rupees and if you want the money, I need not sell the company or wind up the concern, but can sell the cotton—But you would not be able to do it, if you wish to carry on your business. Of course there are sufficient assets available, but as long as you do not liquidate, I do not think you would be able to pay.

Sir Purshotamdas Thakurdas: I only wanted to ascertain what the system was like. Is the inference of all the information which you have been good enough to give us that the advances by banks to industries are much better secured here than in Europe owing to various securities being available and in addition the personal guarantee of the managing agents?—It is my opinion.

Does it strike you that over and above the security of block or liquid assets the income of the Managing Agents is wholly at your disposal in this country. Is not this a system of financing of industry which has no parallel in any other civilized country?—You must keep in mind that the company is not managed by itself and that the banker does not know what the managing agent takes out; we would therefore probably not give the credit without the managing agent's guarantee. It is a peculiarity of this country that joint stock companies are not in my view self-managed, but managed by somebody else.

Do you consider that a handicap from the bankers' point of view? You get an additional protection here under the managing agency system which you do not get in your country.

Dr. Trip: I think you are right.

If you make enquiries you will find that managing agents have lost 60, 70 and sometimes 80 lakhs of rupees in financing industries.

Dr. Jeidels: It is really due to the managing agency system. I do not think any banker would give clean credit to a joint stock company which is not managed by the shareholders or by the Board of Directors, but by somebody else. It is the essential point of your most interesting question. The banks are spoiled by the managing agency system and the managing agents are spoiled by the banks, because the banks force the joint stock companies practically to take managing agents; the banks are quite happy that companies are managed by managing agents, as it gives the banks two signatures for the loans.

It is an advantage for the banker; when the managing agent goes, he would take charge?—The banker is not at all interested in developing other methods of industry; he has two signatures and has no reason why he should favour another system, which may be quite good for industry, but deprives the banker of the second signature.

Mr. Manu Subedar: Therefore to that extent the connection of industry with banks is loose in our country and if the system was altered as the system obtaining in your country and the joint stock companies were managed by themselves, the bankers would learn and get used to looking into their affairs. The managing agency system is therefore a disadvantage from that point of view?—I do not wish to create the impression of not appreciating the services rendered by the managing agents.

3rd February 1931.

Chairman: When we adjourned yesterday, we were in the midst of a most interesting conversation between Sir Purshotamdas on the one hand, and Dr. Jeidels on the other. Sir Purshotamdas got his answers to his questions, but it is possible that some of the other members may want to ask some questions on the same subject. Mr. Chetty, for example, you wanted to put some questions.

Mr. Shanmukham Chetty: With reference to your answer to Sir Purshotamdas' question, I would think of raising a debenture loan or issuing of fresh capital only for purposes of extension of the business. But if I wanted a loan just to carry on the day-to-day business, provided I have raised a portion of it myself, I would expect the bank to have a current account with me and help me from time to time up to a certain amount. In this country, if I build a factory for 5 lakhs and I estimate I require 5 lakhs for working expenses, I raise 2 lakhs by debentures or some other means, and expect the banks to advance Rs. 3 lakhs on the hypothecation of all my liquid assets including the stock in trade, etc. Does such a system prevail in Germany ?

Dr. Jeidels: It is not usual. Inside of our system I would call it a crude sort of financing, because it does not safeguard sufficiently the interest of the debtor towards his other creditors.

Chairman: Sir Purshotamdas admitted the force of this. If the person who is supplying you or him with raw materials came to know of this transaction, he would stop the supply of raw material.

Dr. Jeidels: There is that danger.

Mr. Shanmukham Chetty: I think there is a misapprehension on the part of Dr. Jeidels. If I hypothecate the liquid assets in my godowns to you, it presumes that those liquid assets belong to me. According to the law of hypothecation in this country, if my customer, for example, has given me 100 candies of cotton for which I have not paid him, I have no right to hypothecate it. So the question does not arise at all.

Dr. Jeidels: Do you not enjoy any credit from the supplier of your raw materials ?

Mr. Shanmukham Chetty: Yes, I do enjoy. But unless the property in the goods has passed to me the bank will have no hold on my liquid assets. If a dispute arises and you have to take legal proceedings, it will be the property of the customer and not your or my property.

Dr. Jeidels: Do I understand correctly, that the merchant who sells you cotton remains the owner of the cotton ?

Mr. Shanmukham Chetty: If I have not paid for it.

Mr. Buckley: Generally speaking when banks have to take over the goods in the godown belonging to a firm who has failed, and find amongst them goods which the firm has not paid for, we release them.

Dr. Jeidels: It was one of the reasons why I have suggested in one of the memoranda that the legal situation of bank loans should be investigated by a legal expert.

Chairman : I may point out that it is better to confine, Dr. Jeidels, to an explanation of the practice followed in Germany.

Dr. Jeidels: If you say, Mr. Chetty, that the rights of your supplier are safeguarded, then of course the matter looks a little different. Your supplier has sold you raw material for which you owe him the money ; the raw material has gone into the bank's godown ; I cannot imagine that the supplier really has a first right on those goods.

Mr. Manu Subedar : Unless he has specifically kept a lien.

Mr. Shanmukham Chetty : We have got the Contract Act, the seller's lien on goods.

Dr. Jeidels : I think I can adhere to my opinion of yesterday,

Mr. Shanmukham Chetty : We have to examine how far the seller has got a lien on the goods for which he has not yet been paid. Apart from that, do industrial concerns in Germany not get accommodation in the banks at all for their current day-to-day requirement for their working capital ?

Dr. Jeidels : It is the case described yesterday by Sir Purshotamdas ; it was the normal current demand for working funds.

Mr. Shanmukham Chetty : In the case that Sir Purshotamdas mentioned, after he has raised those debentures for 7 lakhs within one or two years he has all the money for normal working expenses. What does he go to the bank for afterwards ?

Chairman : The talk between you Dr. Jeidels, and Sir Purshotamdas was this. He said " I want 7 lakhs for my current expenses, working capital " and he went to you as a banker. He told you he would float or get your assistance to float those 7 lakhs debentures in the next 2 years. And you said on that understanding if you were satisfied that those 7 lakhs of debentures could be floated you would give him accommodation for 2 years. That he understood to be the trend of the conversation. Mr. Chetty's point is this. Supposing he were to go to you and not give you that assurance, what would you do in that case. Would you or would you not give him credit ?

Dr. Jeidels : I think the loan would be given, but entirely at the borrower's risk ; he would not get it for 2 years, but only for 3 or 6 months ; if there are critical times in the respective industry or otherwise, the bank may not renew the loan.

Mr. Shanmukham Chetty : You will probably give me credit for 6 months and then if my position is solvent, I take the risk of getting or not getting it.

Dr. Jeidels : I fully agree.

Mr. Shanmukham Chetty : That we may take as the normal condition ?

Dr. Jeidels : Yes.

Mr. Ramdas Pantulu : With regard to the Industrial Corporation of the kind mentioned, you agree that capital may be furnished by the Government and that Government ought not to guarantee debentures. Why do you make the distinction ? I think you answered, but I was not able to follow.

Dr. Jeidels : I would like the corporation to gain the confidence of the investing public on its own strength and not on outside assistance ; Government guarantee would be outside assistance. I think it opens a larger field if the Industrial Corporation emancipates itself from Government. By establishing a credit of its own, it will ultimately command a larger amount of capital, because Government have to issue bonds for its own purposes and can appeal to the public, as described yesterday by the Chairman, only within the

market range of Government securities. Government borrowing, in practice, in all countries leaves a field for private debentures. That field I would like to cultivate for the debentures of an Industrial Corporation. I admit that in the beginning the sale is easier with Government guarantee; the first introduction of these debentures, if not guaranteed, is rather difficult.

Chairman: That being so, would you even object to a Government guarantee in regard to the first issue of the debentures?

Dr. Jeidels: It would only mean you postpone the difficulty and even increase it, because when later such debentures are offered without guarantee, the public will be reluctant to take a debenture, which, compared with the first issue, has no doubt an inferior security. The difficulty has to, and, I think, can be overcome; the public has to become accustomed to this kind of securities. The same applies to land mortgage bonds.

Chairman: I fully realize it. Pursuing your own line of argument, in your opinion would it or would it not be desirable to give a certain period? I am only talking from the procedure adopted in the case of the land mortgage bank in Madras. Supposing it were laid down that for debentures issued in the first five years, Government would provide a guarantee, then that would enable the public to become aware of these debentures, and perhaps after the 5 years the Government guarantee would lapse.

Dr. Jeidels: In such a matter one ought not to be obstinate. If the experiment as suggested by the Chairman is considered practicable, why not try it and use my scheme as an alternative? The small debenture issues with Government guarantee up to now have had the character of an experiment and as such do not call for much criticism. The line I take with regard to the Industrial Corporation is to make it a big outstanding proposition. If I were a banker in this country, I would try to take the bull by the horns and issue the debentures from the start without Government guarantee, and would place the attraction less in the security than in the rate of interest.

Chairman: You want the shares to be guaranteed. That was not done in the case of the Madras bank. That itself may operate as an inducement to the public to take the debentures.

Dr. Jeidels: Government ought to be the shareholder.

Chairman: Rightly or wrongly, it has been stated that Indian capital is shy and if, for the purposes of drawing out the capital from shy people, a temporary concession like that was considered necessary, you have no strong objection to it.

Dr. Jeidels: No.

Chairman: All these are experiments made for the purpose of educating the people. You say that by providing share capital taken by Government you provide one of the means by which debentures should be attracted to the public.

Dr. Jeidels: It is a matter of expediency. There again co-operation between banks and industry will prove useful; the banks would put their experience, in marketing debentures and other securities, at the disposal of the Industrial Corporation.

Mr. Manu Subedar: The banks would influence their clients to go in for these bonds.

Dr. Jeidels: They would educate them.

Mr. Manu Subedar: Have you thought of this aspect that banks by advising and influencing customers to go in for these bonds might actually lose business.

Dr. Jeidels : Such objection was raised in other countries also, the bank not wishing to lose deposits by offering their clients attractive debentures. But it proved to be a rather short-sighted view which was overcome by the temptation to earn the nice commission on debentures placed.

Mr. Manu Subedar : They prefer to earn commission which compensates them for the temporary loss and then they expect that the same people or class of people will bring further sale—constant flow.

Dr. Jeidels : Just so.

Dr. Jeidels : I think in India banks also advise their customers to invest in securities and furnish information about new issues.

Mr. Buckley : I was just going to say that among the exchange banks that is not the practice. If we are asked by a customer to advise him what shares to buy we always reply that it is not our business, but that it is the business of the stock broker. The reason given is that we have had cases where we have given advice in good faith ; the investment has not turned out well and the bank has been blamed afterwards by the customer for putting him into something which became afterwards a dud show. In this respect I was reading in a paper this morning that on the London stock exchange action was taken against a firm of stock brokers by a client for giving wrong advice and the client got damages ; this advice was not given by the firm of stock brokers but by an agent of the stock brokers. This, they seemed to think, was going to produce a lot of more cases on similar lines. I was going to ask Dr. Jeidels what he thought about that aspect.

Dr. Jeidels : You speak of shares ; we are discussing debentures exclusively.

Mr. Buckley : Of course I have often been asked about debentures and I have said, " Well, there are the jute mills companies ' debentures which are looked upon as gilt-edged ". I have taken the risk of saying " You cannot go far wrong in putting your money into them ". To people who have asked me what shares they should buy I have always given the reply that this is outside the sphere of a banker's advice.

Dr. Trip : It is different in our country.

Dr. Jeidels : With you, Mr. Cassells, it is probably as Mr. Buckley describes.

Mr. Cassells : If somebody comes to us for an investment we ask for his requirements. We ask him, " Do you want a safe investment at a moderate rate of interest ". If he says "yes ", we put him on to Government bonds, provincial bonds or municipal bonds. If he wants something with a high rate of interest, like a preference share, we say, " We cannot recommend, we do not give advice ; that is given by a firm of stock brokers ". We say, " Here is a list of what are considered the best preference shares, industrial or hydro-electric, and we will ask our broker to give us the list for your benefit ". Then, if they ask for something quite speculative, the same thing would apply. We say " Here are common shares, we will ask our broker too about them and then you can make your selection ". We have, however, no hesitation in making recommendations about Government securities or municipal bonds.

Dr. Jeidels : There is apparently an essential difference in methods in various countries.

Mr. Ramdas Pantulu : Have you any objection to Government purchasing the debentures by way of financing this bank ?

Dr. Jeidels: By purchasing debentures? If the Government is in a position to do it, be it only for a comparatively short time, it would certainly help. The Government has always certain funds to invest. I would prefer this to a Government guarantee.

Mr. Ramdas Pantulu: You will be interested to know that the Royal Commission on Agriculture, on which there were some bankers, recommended to the Land Mortgage Bank that they would strongly object to Government taking any debentures but that they would strongly recommend them guaranteeing those debentures.

Dr. Jeidels: I have read it.

Mr. Ramdas Pantulu: You don't agree with that recommendation?

Dr. Jeidels: I do not.

Dr. Hyder: That recommendation was made on this ground, that it might be more difficult in the straitened circumstances of a Provincial Government or of the Central Government to find the money for purchasing debentures and it might be easier to have a sort of guarantee which might or might not become operative.

Dr. Jeidels: I admit that it is a matter of opinion, but for myself I am quite emphatically against Government guarantees, on general grounds. I prefer other ways of Government assistance than guarantee of debentures.

Dr. Hyder: The guarantee of interest. The railways of this country were built on this system and the Government had to make good the deficits in the earnings in order to make up the sum necessary for interest.

Dr. Jeidels: I know it, yet I would like to adhere to a principle which I consider to be one of the soundest rules of public finance.

Mr. Devadhar: Will you mention the other ways in which Government can give assistance?

Dr. Jeidels: The principal way is that Government takes the ordinary shares.

Mr. Devadhar: You would not object to Government purchasing shares?

Dr. Jeidels: Not at all; I would prefer it. In addition, if Government has an opportunity to invest funds, it should buy the debentures until a regular market has been created. So much depends, however, on the attitude of the public. In this country the public seem to be satisfied with a guarantee of interest, while the educated investor will insist on guarantee of capital.

Mr. Shanmukham Chetty: You can never get a guarantee unless Government chooses to pay it.

Chairman: Then debenture interest which has been guaranteed by Government becomes a permanent debt.

Dr. Jeidels: But, I suppose, only in comparatively few cases.

Mr. Manu Subedar: If the bonds were issued for a limited period and if the investor still took the bonds, it probably is the result of his ignorance. He does not understand the difference between a guarantee of interest or a guarantee of principal. If he realised the position, then he would not take it.

Dr. Jeidels: That was my impression.

Mr. Devadhar: Am I to understand that your view is that in no case should Government spend money out of the tax-payer's contributions for the furtherance of any of these industrial concerns?

Dr. Jeidels: Of competitive industry.

Mr. Devadhar: If there is no institution of that kind for which a great need exists, then you would not object to Government spending some money even from the tax-payer's contributions ?

Dr. Jeidels: Not necessarily.

Mr. Ramdas Pantulu: I have generally followed your preference for an All-India Corporation but I was not quite able to follow the reason that you have given in your penultimate paragraph where you say: "Otherwise local and private interests will endeavour to get hold of the scheme and if they succeed other local and private interests will at once push forward. The Industrial Corporation will run the danger of becoming a pandemonium of partisan struggle and incompetence." I could not follow that.

Dr. Jeidels: If the organization is too local, too provincial, local fight might arise about propositions submitted to the Corporation, everybody claiming that his proposition is the best. The Corporation therefore ought I think to keep as much aloof from local influence as possible, particularly in the beginning. A company of that kind has first of all to establish its policy and the public's confidence. Later on, and as experience increases, it may do many things which are not good for the initial programme ; it may then adopt a somewhat modified programme and give more room to provincial influences.

Chairman: Dr. Jeidels, do you realize that India is not a country but a continent and that Madras, one of its provinces, is perhaps as big as the whole of Germany ? Therefore, does what you say about the local and private interests arise to that extent ? It is not as if these operations were conducted in a small area like one of the States of Germany ; it extends to a very large area. If you confine your scheme to an All-India business there may be more of that trouble against which you want to guard. For example, suppose there is a big All-India institution sitting in Delhi and Madras may want a glass factory and the Punjab may want a glass factory and this body decides in favour of the Punjab. I wonder what would happen thereafter. If, on the other hand, they decide in favour of Madras I know precisely what may be said, though I do not want to say anything on the subject. If you at all take into consideration that aspect of the case I do not know what might happen under similar conditions even in the German Federation. If Bavaria wanted a glass factory and Prussia wanted another and this All-India body decided in favour of Prussia I do not know whether all these private and local influences would not operate. But this is a very large country and I cannot also wholly overlook the ideas which are developing about provincial autonomy. You see each province wants to have a dozen activities. Mr. Chetty will perhaps develop that further ; he developed it on a previous occasion ; I do not want to pursue it at the present moment. I simply want to find out whether you had considered all these considerations before you made that suggestion ?

Dr. Jeidels: I agree entirely, Mr. Chairman, that in a country of this size and even in a country like mine, which is of a very much smaller size, provincial or State activity is in itself, generally speaking, preferable because it is nearer to the field of action. But we have to do here with an institution which has to be newly established, has to find a policy and gain the confidence of the investor. If this was a country with an extremely low rate of interest and a difficulty for the investor to find proper investment for his capital, I would say that one could start at once several provincial institutions. Generally speaking, I am not against provincial institutions, but in practice I think one has first to create a standard—largely on an experiment. I do not consider it possible for several provinces at the same time.

Chairman: It depends on the resources of the Provincial Government, if I may say so, because there will be a certain amount of the tax-payers' money spent on a scheme of this sort. Government should take shares and it may be difficult to persuade the investor in Madras to interest himself in a glass factory in the Punjab, whereas, if it were a glass factory in Madras, providing employment for both skilled and unskilled labour in that Presidency, that might appeal more to the investor. Was not that something of your thought, Mr. Pantulu ?

Mr. Ramdas Pantulu: Yes.

Chairman: Please also consider the position in regard to the co-operative credit business. I am not sure, if your ideas were pursued in the beginning and Government began with an All-India Co-operative Bank instead of starting with the provincial units, that there would have been any real progress.

Dr. Jeidels: The extent of the capital market in India, which had our attention yesterday, is also to be considered. The capital market cannot be expected to respond at the same time to various Industrial Corporations. It is only for practical reasons that I suggest only one corporation now.

Chairman: Your proposition refers only to the starting of new industries. Have you at all thought about this aspect of the question, that the investor in Madras may not at all take any interest in a glass factory in the Punjab, while he may, if it is a glass factory near his home ?

Dr. Jeidels: There is much in that, I had two practical objects in mind—the Madras Hydro-Electric Power Scheme and the Punjab Hydro-Electric Power Scheme.

Chairman: Then you are talking of very much bigger things; they are Government concerns.

Dr. Jeidels: I would like to start my Industrial Corporation on big schemes and on a big line and let it proceed from big to smaller propositions, rather than to start with small business and try to climb up to big one.

Mr. Devadhar: Was it not your view that big things should be slowly developed ?

Dr. Jeidels: Not in this case. Small industries are not suited for this Industrial Corporation; there may be smaller ones later on.

Chairman: You contemplated that this scheme should be applicable to hydro-electric schemes ?

Dr. Jeidels: Public utility schemes. I think it is the only possibility of educating the public to the idea of Government financing industries.

Chairman: There again, would not the same difficulty arise ? I do not know whether the Madras investor would take any interest in a hydro-electric scheme in the Punjab.

Dr. Jeidels: There is something in that.

Chairman: The other point was that the administration of that would be under another Provincial Government.

Dr. Jeidels: There is much in this argument too.

Chairman: I do not mean to say that every province should start with one, but my point was that supposing Madras on the one hand and the Punjab on the other said, "Well, now we have got provincial autonomy, we shall therefore try to use a little of the money of our tax-payers in a scheme which

will help the development of the province and help employment in the province."

Dr. Jeidels: I think I ought not to dispute this argument. It has been more from a practical point of view, that I recommended to keep aloof as much as possible from small and local influences; such Government activity should not be split up into many small affairs; it ought to start on a big scale and educate the public to the purchase of debentures. Therefore, I concluded that it is better to start with an All-India Corporation. By the way, I think the Committee's evidence in this matter is rather divided.

Mr. Manu Subedar: We are also heavily divided.

Chairman: I was thinking at the present moment of placing the views of one school of thought and trying to find out what your objections were.

Dr. Jeidels: Of the other aspect of the matter which you have been good enough to explain, the most convincing seems to be the popularity of provincial debentures with the investing public.

Chairman: We may be able perhaps to meet your difficulties by making this one of the subjects which will come within the purview of an All-India Board. Excuse me if I am here importing ideas which have been largely reinforced by the discussions which took place in London over the constitution. You see this may be one of the most important in regard to which it may be necessary—I am at the present moment simply giving my ideas—to provide for an All-India Board composed of a certain number of business men, big business men if it is possible to get them, so that the Board may be able to give advice to its local organizations.

Dr. Jeidels: I agree. In practice there should be no essential objection against more provincial lines than an All-India construction.

Dr. Trip: I would only ask, Mr. Chairman, whether it is not the case now that the provincial requirements for money, especially for capital expenditure, for loans, are provided by the Central Government.

Chairman: They are provided by the Central Government but it is the Provincial Government which finds the interest, that is, the money comes from the pockets of the provincial tax-payer.

Dr. Jeidels: That is right, but if the Government issues short loans on behalf of a certain province for irrigation works.

Chairman: There are two classes. A province is not debarred from raising a separate loan of its own, and there are some people like Lala Harkishen Lal who perhaps prefer that arrangement. As it is, some of the Local Governments do raise their own loans, I cannot say what will happen in the new constitution, but I know this that both aspects were very fully discussed there and the real trouble is what you may call provincial autonomy, this growing desire for provincial autonomy tends therefore for making the province a self-contained unit.

Mr. Manu Subedar: Dr. Jeidels, I will now put to you the considerations which would lead to an All-India Corporation as advised by you to be favoured, and I will run over them because some of them are self-evident. For example, you speak of the consolidation of commercial laws in this country; that would be a single law for the whole country. That would come within the purview of the Central Government or of the All-India body. There would be the raising of Government loans and especially what Dr. Trip has just pointed out. That would all be a matte of central policy. There would be the capital

markets and, as you state, until capital markets exist elsewhere, there would be only some central markets. There would be central control of currency and exchange, and so on. There would be central control of railway rates which, as you know, is a matter of very great importance for industries and there could only be a central survey of the conditions indicating various possibilities. In connection with this I want to mention one matter. I know as a matter of fact that there are three places in India where a large aluminium industry could be established. They are located in three different provinces. If it was a provincial matter then every province would want to do this, and should they do that, it would be disastrous for the country as a whole. It is desirable, as it is in Germany, to concentrate this manufacture in one place rather than to have two or three factories spread out and competing with one another. If those factories grow by direct competition, let them grow, but if Government finances the industry at this stage, then it is most desirable to conserve that finance and not allow it to compete, one limb of Government with another. Again there is the question of provincial issues of bonds. Bonds issued by the Assam Government would not be touched in Bombay, but if the Assam industries needed some money and afterwards there was a central issue of bonds, then you will not know where the money is going and the investor is satisfied whatever names these bonds may go by. A large issue of bonds by a provincial Government may not find a ready market, it may not find a market at all. In certain provinces there is no money market, and in their cases the bonds will have to come to Bombay or Calcutta, and Bombay or Calcutta may not look upon them with favour. Don't you think that all these considerations for a central organisation very greatly outweigh those for provincial branches?

Dr. Jeidels: I have heard a number of new arguments to-day. The balance of the scale is to my mind still in favour of a central organization. My own country offers an interesting comparison in this regard. There, the single States can enter the money market, and experience proves that it is very difficult with the decentralized system once in existence to draw the line back to central supervision which, I think, is essential for proper functioning of the capital market. France with strong centralization is the counterpart.

Chairman: France has a unitary government. It depends on the ideas of Government. That is the whole trouble. Mr. Manu Subedar has put before you certain aspects. You must remember that these things will not be settled by the Banking Enquiry Committee. Political ideas are growing in the minds of the people of the provinces and if a province wants to develop in its own way, why should it not be allowed to develop? On the other hand Mr. Manu Subedar's objections may be met by what may be called a central board. The central board will give the advice, but the man who has to pay the piper obviously will be left to arrange for the tune.

Dr. Hyder: Your Government is a unitary Government. The Empire law overrides the State.

Dr. Jeidels: There is rather generally a tendency to more centralization owing to those economic effects, of the decentralized system which Mr. Manu Subedar seems also to have in mind, *viz.*, that too many units of the country appeal separately to the capital market. In my country we have, I think, about 15 states which go into the market independently, which I think is not desirable, since it affects the rates the states or provinces have to pay. The investing public, which is the highest judge in these matters may say, 'We accept Madras bonds at 6 per cent. and the Madras Industrial Corporation debentures at 7 per cent. but we will entrust our money to the Central Provinces.

only if we get 8 per cent.' This is a danger, calling for a financial policy apart from the constitutional regulation.

Chairman: If this idea is pursued there should be no provincial land mortgage banks. The same arguments about money markets, etc., apply to them to a large extent. There is such a thing as provincial patriotism, and in India it has been growing fast, and it cannot be overlooked. In other countries where they have a federal Government they have tried to meet the difficulties to which Mr. Manu Subedar has drawn attention, by providing for central boards, leaving the provinces to pursue their activities.

Mr. Sarker: The Imperial Bank Board is a central institution such as you describe.

Chairman: I do not know whether you have read the arguments for and against given in the Secretary's summary. These points have come before me very forcibly during the discussions in another place. When somebody wanted to make industries a federal subject, it did not get support.

Dr. Jeidels: One must and can find a solution satisfactory to both points of view, by establishing a central organization in the form of a joint stock company. It is an economic matter and should not be influenced by considerations, political or constitutional.

Chairman: It is not wholly political in itself. There are backward provinces and progressive provinces, and the effect of centralization may be that progress in all provinces should have to be uniform. It may be that the people of one province may want to have one form of development and not like to fall in line with the all-India development. At the present moment we have not got a land mortgage bank in all provinces. Only in those provinces where the idea proved attractive, and where they found that the provincial investor would find the money, have they started land mortgage banks. That is a very good parallel. Others that have not done so might not have been able to find investors or had other difficulties. That is why Mr. Ramdas Pantulu has raised this question. If you were to say that there should be an all India mortgage bank, because of the advantages of the money markets, etc., it is very doubtful whether it will be accepted by any province at the present day.

Dr. Jeidels: One can overcome these difficulties and do justice to all point of view. We have in our country what is called "roof" company for various enterprises, in the form of joint stock companies, which introduces an element of central supervision on mere business lines. Such supervision from the "roof" gives sufficient weight to central arguments, while the provincial company lends natural weight to the arguments for decentralization. Suppose you have provincial institutions with a capital of one crore each. They work independently but issue their bonds under rules established by the "roof" company, preventing the provincial institutions from looking at the matter exclusively from their narrower point of view. Even in a sub-continent like India, capitalists are inter-state or inter-provincial. They may be stationed in Bombay, but may have interests in many provinces and may prefer an all-India proposition to a provincial one. I think the central board or, as I would prefer the central joint stock company should claim the function of making rules for the appeal to the investing public, so that the issue of debentures by the provincial companies is subject to the restrictive influence of the central institution. You cannot prevent the investing public from discriminating between various provinces involving an element of nervousness in the investment market.

Dr. Hyder: This element of weakness is in the last resort a matter of credit of the provincial Governments.

Dr. Jeidels: You let the credit of the provincial Governments interfere with the finances of the Industrial Corporation.

Chairman: It may be argued that by giving the central body the fullest control, the result may be helping certain interest to the detriment of others. That is an apprehension which came out in the course of the evidence before us. After all, everything is largely connected with the Government of the country, and if the Governments of the provinces become self-contained, except with regard to certain specified matters, the people who are governing the provinces on a mandate from their people, take all responsibility.

Dr. Jeidels: My advice is to take as much business as possible out of their hands and put it into joint stock companies as business organizations.

Chairman: You provide for a certain amount of State help. The State should take some shares, and it is the provincial Government which will have to find the money for the shares, and naturally the representatives of the tax-payers, who are called upon to find the money, will have to consider the amount of their say in the matter. In all economic matters, even under federal constitutions, there must be central boards, but they will be only boards. They will give a certain amount of advice. They will get hold of the people from the joint stock banks in the provinces and tell them, 'this is the line of policy you will have to follow'. But apart from that as provinces have got to find the money, naturally they would like to have the right of calling for the tune.

Dr. Jeidels: I would not say that they should not be allowed to issue by themselves, but such issues should be on lines established by the central board or central joint stock company.

Chairman: There, I agree.

Dr. Jeidels: In my country we have a regulation for foreign loans, leaving borrowing quite free if the rate of interest does not exceed a certain maximum. The Madras Government may say, 'For us the matter is so important that we do not mind to issue 7½ per cent. bonds'; but such issue may ruin the capital market for many other purposes. You are in the fortunate position of being able to regulate these matters from the start, while in my country we have inherited the decentralized system and have not been able to mend it satisfactorily. I think you ought to establish a rule that any enterprise which enjoys Government assistance should at least submit to a control of rates and amounts, with which it approaches the capital market.

Chairman: Whether we shall be able to regulate in that way in future is more than I can say at present. I believe some of the provinces hold the view that they can borrow at a cheaper rate of interest than the Governmen of India, and that regulation may become more comprehensive and rigorous. In Australia there were first uncontrolled provincial borrowings, then they created their board, and now they want to get rid of that board. We are trying to find out what your objections are to provincial organisations under the guidance of an all-India Board.

Dr. Jeidels: I only wish to emphasize the principle that provincial organizations, if established ought to be subject to an organization regulating their entry into the capital market.

Chairman: That organization may even be a Reserve bank.

Dr. Trip: It is not strong enough to exercise such control.

Chairman: Perhaps you would have a general economic board on which ministers of all provinces sit with experts.

Dr. Jeidels: The handling of the capital market, or rather the handling of official loans, municipal and provincial, must be under control. Otherwise the capital market and with it the Industrial Corporations are menaced.

Mr. Sarker: Don't you think that the control of capital market must be left to economic conditions ?

Dr. Jeidels: I am not for free trade in these matters.

Chairman: What Mr. Sarker has now mentioned was also, I think mentioned in some other discussion. I had overlooked for the moment you were talking of a uniform rate of interest. Now a particular province may for purposes of development desire to pay a higher rate of interest.

Dr. Jeidels: I did not speak in favour of uniform rate of interest.

Chairman: You practically come back to my view that the board would be advisory and would not have the power to dictate.

Dr. Jeidels: Rules must be established, not a uniform rate of interest which is neither advisable nor necessary.

Mr. Manu Subedar: You use the word 'controlling', the Chairman uses the word 'advisory'. Will you kindly tell the Committee what in your opinion will be the proper thing to do so far as the industrial banking organization aided by the State is concerned, so as to avoid more trouble in future. If we start at the wrong point this country may have a lot of difficulties to contend with hereafter.

Chairman: Mr. Manu Subedar's talk about trying to stabilise the future by taking some action at the present moment may just have the opposite effect.

Dr. Jeidels: The best policy, to do justice to all reasonable considerations, seems to be to remove these matters from the political sphere. The "roof" corporation will attend to those subjects which are in the interests of all concerned, such as the terms for the issue of debentures by provincial institutions, " terms ". including amount as well as rate of interest, time of the issue, etc.

Chairman: I thought you did not want a uniform rate of interest.

Dr. Jeidels: No.

Chairman: In regulating the rates of interest the Central Board would provide for different rates of interest in different provinces.

Dr. Jeidels: The lines of activity of the various industrial corporations may be quite different. A profitable hydro-electric scheme in full operation may command a lower rate of interest than others, just like municipal bonds, where size and location of a city justifies a variation in the terms of bonds.

Mr. Manu Subedar: Apart from the functions of regulating when, how much and at what rate, would you not include as one of the important functions of that central institution " to decide the directions in which new industries may be set up " ?

Dr. Jeidels: It must be worked out in detail. If we were now in the discussion of the actual scheme, the composition and powers of that central body we would no doubt be able to set up exact rules. I do not think it is difficult; there is a lot of experience in this line all over the world, and even when our job is finished, our files and advice remain available if required.

Chairman : In this connection Mr. Sarker has produced a paper. His views and Mr. Subedar's are not in agreement. As I have said, quite apart from communities, there are the provincial jealousies.

Dr. Hyder : The present position in India is exactly the same as you had before the foundation of the German Empire. There are particularist tendencies on one side and there are central tendencies on the other. The question resolves itself into two. So far as we are concerned I quite candidly admit that there would be great advantage in going to the capital market in one body rather than in making separate raids on it. But there are these considerations. There are some industries which may overlap provincial boundaries, there are, on the other hand, some industries peculiar to each province. Then there is a third factor, which has not been alluded to, namely, that there are two big industrial provinces in India, Bengal and Bombay, and the other provinces may feel that if there is one central corporation they may never have a look in. That is the position as I see it. It is not a question so much of communities.

Dr. Jeidels : I can only repeat that I see no difficulty to devise a scheme which takes everything into account which has found expression here, particularly if it is done on business lines.

Chairman : I simply desire to refer to what I may call provincial jealousies. Lala Harkishen Lal, I think you hold some views which are somewhat on the lines of Dr. Jeidels' ideas, namely, that industries should be classified, some being run by an all-India Board and others being left entirely to the provinces. You know a good deal about it and perhaps you could give us your views at this stage.

Lala Harkishen Lal : My trouble has always been in the classifying of industries. Some industries have a demand in one province and the raw materials are in another. Some have facilities in one province which do not exist elsewhere. Some industries are so huge that no one province can command sufficient capital or provide the whole organization. These factors have all to be taken into consideration. In my view, industries which are more or less inter-provincial may be left to the central board, while others which are local and small in size cannot really be controlled or guided by the central board, because that board would not know the local conditions. The factors militating against success and those producing success are so many and so varied that after an experience of several years, I think it would be exceedingly difficult, if not impossible, for any central board however constituted to analyse those factors and arrive at what I may call the true economic conclusion as to whether the industry would pay or not. Take the case of glass manufacture. Several attempts have been made in India to manufacture glass but none has so far succeeded, except a small factory which has now been set up in Naini. And the reason has been that none of the controllers of these schemes analysed all the factors which go to make a glass factory a success. Glass is manufactured out of sand, and people have found the sand all right, but for melting the sand three times as much coal is required and the freight on coal has invariably killed the industry. The sand of the quality required has been found, and that has been selected as the site for the factory. But if the sand had been carried to the coal, one freight would have been paid ; with the coal being carried to the sand, three freights have had to be met. Another factor is that glassware requires a huge amount of packing material, and that, frequently it has turned out, cannot be had in the locality, and so the venture has failed. Those factors should have been analysed in some such way as this, that if coal is available in Bihar, sand in the Punjab and packing material in

Rajputana, what is the most economic site for the factory ? It may be that Delhi would be the best. I doubt very much if the central board would be able to solve the problems of small industries like this. And therefore the industries ought to be classified as all-India and provincial. Another factor is the amount of capital required for development. Bombay for instance could raise a joint stock company with a capital of one crore of rupees more easily perhaps than Bengal could. And where Bengal could start a company with a capital of Rs. 50 lakhs, the Punjab could not get more than Rs. 10 lakhs and perhaps the United Provinces even less. These are matters which require special discussions and analysis and I think that the Central Government and the Local Governments should look into these things before a decision is reached.

Chairman : That was really my point and on that point I understand Dr. Jeidels is not prepared to press his objection.

Lala Harkishen Lal : In connection with the steel and iron industry, I may say that in certain localities the iron deposits are so immense that even if one deposit was developed it would be sufficient not only for all our own needs for a long time but would do for export too. But other conditions are not satisfactory. In some cases water power may be developed near by—of course 10 or 15 years ago the idea was that melting could not be done by electricity, though now it is within the range of possibility—in other cases there is neither water power nor coal available though the deposits are very rich. Well, it is a question whether it is worth while freighting the coal in order to work the deposit which is rich, or working a deposit which is not so rich but for which power is available nearer at hand. That has all to be worked out by technical and experienced people fully acquainted with that kind of work; it cannot be left to the Government of India.

Chairman : I think Dr. Jeidels does not now so fully advocate an all-India industrial corporation and so far as he is concerned he would be willing to give provinces, those which desire it, scope in the matter, subject to some regulation by an all-India board. What Lala Harkishen Lal has brought out is that it may also be desirable to classify the industries and to state that certain industries will come under the regulation of the all-India board and in the case of others there will be no regulation.

Dr. Jeidels : I agree.

Lala Harkishen Lal : That is what is done in America so far as banking is concerned. I mean that banking is conducted there under both national and local state laws.

Mr. Ramdas Pantulu : I am glad that many of the difficulties I had have been cleared away. I understand that you adhere to the view that an all-India corporation would tend to efficiency, but at the same time you would not object to provincial interests being safeguarded by some local organization. If I may add one more reason for such provincial organizations, in regard to land mortgage banks you probably know that the very nature of the securities varies greatly from place to place.

Dr. Jeidels : These arguments weigh still more if applied to land mortgage banks.

Mr. Ramdas Pantulu : There are just one or two more small matters. You say that there should be first class business men on the board of this corporation, and you go on to say that all private business interests should be eschewed. But even high class business men will be interested in private business of some kind. How can you reconcile the two.

Dr. Jeidels: If the restriction to non-competitive industries is accepted there will, I think, be no practical difficulties. In business of a competitive nature, you would have to establish strict rules to prevent private parties from manipulating in their own interest. We have to take human nature into account.

Mr. Ramdas Pantulu: I understand you to mean that since the corporation exists to promote new industries there will not be many in the field.

Dr. Jeidels: Yes.

Mr. Ramdas Pantulu: Then you want some Government officials to be on the board. I quite agree that if Government finances it, they ought to be represented. But some witnesses have suggested before us that if Government finances it to a large extent they should not only have representation on the board but should also have the power to veto a particular scheme. The majority of the board may be in favour of a scheme but the view of the Government may be that it should not be started. Would you give the power of veto to Government?

Dr. Jeidels: Some regulation to that effect is possible, certain decisions may require a qualified majority.

Mr. Ramdas Pantulu: You would practically give a veto to Government?

Dr. Jeidels: I have not thought of it, because I think that, with properly constituted board, persuasion will lead a long way and is preferable to a veto.

Mr. Ramdas Pantulu: I quite agree that it is more desirable.

Dr. Jeidels: For important decisions, for instance the starting of new industries, you can and should provide a qualified majority for the board's vote. Government, even if you do not give it a veto, has other ways to exercise strong influence. Although I am not particularly in favour of a veto, I think Government ought to have a powerful word to say, as it has the broader administrative vision in mind, which is very useful and in many respects superior to the business spirit, which only looks at the problem under the aspect as to whether it is a paying proposition. Therefore, I think the joining of these two forces together in the central board will be beneficial.

Mr. Ramdas Pantulu: I have only one more question. You refer in the last paragraph to cottage industries.

Dr. Jeidels: Please read it as "small industries and cottage industries".

Mr. Ramdas Pantulu: Very well. Now the starting and financing of industries on a co-operative basis would also require a knowledge of industrial organization and some amount of technical knowledge. As a matter of fact, as a matter of general official policy, we are not allowed to undertake these business organizations or the financing of these industries. What advice would you give us as to the improvement of our financial organization so as to equip us for the task of financing industries?

Dr. Jeidels: The main principle, I think, ought to be to start only such industries of which exist already some traces, not to start anything entirely new. It reduces the danger attending all artificial structures. If there is hand-weaving in existence somewhere, one may cultivate it systematically. But where it does not yet exist at all, I would be reluctant to start it in that particular locality. Build up on something however small it may be, and do not forget the general principle of "men—not measures". I do not think it is possible to establish far-reaching general rules and regulations regarding how to finance these small industries. The German experience which I have put at your disposal—the Schulze Delitzsch system—and on which

Dr. Friederich can tell you more, deserves to be studied. It may even be advisable to send one or two men with a little knowledge of the German language to study it on the spot. To finance iron and steel industry, electro-power plants, the glass bottle industry, etc., one might work on general rules, but not for the so-called small industries. I advise to watch other experience closely, but I cannot tell you much in the way of general principles.

Mr. Ramdas Pantulu : I do not want to ask you further questions, because it depends upon local conditions, the nature of the industry, etc. I am referring to the total absence of equipment on the part of our great organzations to undertake any kind of industrial finance, because they have neither industrial advisors nor technical advisors to help them. Take for instance the hand-loom weaving industry in Madras. The position at present is that your scheme about the small cottage industries being financed by co-operative organizations is wholly non-existent.

Dr. Jeidels : I presume that every co-operative organization has among the management somebody with common sense ; he should put himself into connection with firms operating the same industry on a larger scale. I have taken the opportunity of discussing with one of the prime cotton millowners in this country, the question of organising part of the cotton industry as cottage industry or small industry ; during our conversation we came to the conclusion that it is quite possible to develop specialities for which the small-scale operation and the cottage industry can be made more efficient in quality and working costs than a large factory. A co-operative society cannot engage the services of a man who is a specialist in every industrial field ; the society, therefore, should gather information from larger manufacturers in the same line of business. A large millowner may have difficulty to consult his competitor, but a co-operative society should be quite able to discuss it, as I did with my cotton millowner.

Dr. Friederich : Mr. Chairman, I am not in favour of special credit co-operative societies for small industries because the risk is too high in this case. We have had in Germany, very bad experience in cases where we formed societies for special professions. I am very much in favour of urban credit co-operative societies but in this case only for urban credit co-operative societies, which cover the whole field of the town, which include not only a special profession but all kinds of professions, retailers, traders, artisans and all kinds of professions.

Dr. Jeidels : I share this opinion.

Mr. Ramdas Pantulu : Speaking of Japan you say : " According to the informants ' knowledge small industry is financed by co-operative organizations which sometimes receive long term loans from the Post Office Savings deposits, which means from the Government ". This has been put forward by some of the witnesses before this Committee. Do you think that that may be tried by co-operative societies in this country ? Could we approach Government for a loan ?

Dr. Jeidels—Generally speaking, I am not much in favour of it, but neither do I object to it. It depends on the soundness of the proposition and organization on the Japanese pattern ; I do not know more than what I have mentioned in the memorandum ; I was told that the small industries are financed not by the Industrial Bank of Japan but by the co-operative societies. Government assistance should be the last resort and only to be appealed to when all kinds of self-help have been tried.

Ch. Mukhtar Singh: In paragraph 2 you have given the advice that we should not follow the Japanese methods. What is the Japanese method ?

Dr. Jeidels: The Government of Japan seems to furnish part of the money and part of the management; the money by having debentures subscribed by the Post Office Savings, and the management by appointing the Governor of the Industrial Bank, as Government does here with the Imperial Bank. I have stated that I know comparatively little about it, but I would be reluctant to recommend a similar course for every country. By and by the Japanese system tends to push back private initiative. Also, if an enterprise with much Government money is once started and large amounts spent, the freedom to withdraw is practically more and more restricted. I am afraid of that system, without having a positive and constructive opinion about it. I do not know Japan; my information is mostly taken from literature and therefore I would not like to express a definite opinion about it. But I would be afraid to have it adopted in my own country.

Ch. Mukhtar Singh: Do you really feel that it would have been possible for Japan to develop in such a short time without State aid ?

Dr. Jeidels: This again is difficult for me to answer. But I could imagine that the heavy set-backs which have occurred from time to time in Japan are partly due to the fact, that the natural regulating effect of private enterprise has not had full possibility to operate.

Ch. Mukhtar Singh: It certainly gives a set-back to the private person but the ideal is there.

Dr. Jeidels: If there are finally heavy losses, the tax-payer has to pay. Government is not an outside institution; it is after all the community of the tax-payers.

Ch. Mukhtar Singh: Has there been any protest in Japan itself on behalf of the people ?

Dr. Jeidels: It seems to me that the tendency is to push on and on. There seems to be now a strong tendency for socialization in industry, which is the logical consequence of such economic policy. It starts with State aid and ends with State ownership.

Ch. Mukhtar Singh: That is a very big question. I simply wanted to know whether it is the opinion of the Japanese themselves.

Dr. Jeidels: I cannot tell you. I do not wish to make incorrect statements. Whether it is sincerely considered as good policy or whether there are doubts about it, I cannot tell you. My information and that of my colleagues is very meagre on the subject.

Mr. Ramdas Pantulu: You say that the Japanese system of all round State aid in economic life has still to prove its success. There is an impression in this country that of all the modern countries in Asia, Japan has been very successful in building up its industrial life.

Dr. Jeidels: I think that is the general impression but it has not been achieved exclusively by State aid. It is a country which has modernized itself to a really admirable extent.

Mr. Ramdas Pantulu: Do you think that the words "Japan has still to prove its success" require some kind of modification or some qualification ?

Dr. Jeidels: It has proved its success in some direction but generally I do not think the statement requires modification, because one cannot speak of full success in view of the terrific economic crisis which has swayed over Japan at various times.

Mr. Sarker : So far as the manufacture is concerned, they have made amazing progress.

Dr. Jeidels : They have made tremendous progress, but I do not believe that all progress has been due to the action of Government. The general modernization of an eastern country on so-called western capitalistic lines is not so easy and it is admirable how Japan has progressed in the way of self-education for the purpose of economic efficiency. But I am really not able to say how far State aid and how far individual activity has been responsible for it. I think that the State is certainly responsible for much of this progress.

Mr. Sarker : I want to place before you the opinion of one Mr. G. C. Allen, who is also an expert in this sort of banking. He says :

> "The establishment of official banks, which was part of the whole scheme for the reorganisation of economic life, seems to have been, in these circumstances, a wise step, because otherwise banking would have grown sporadically and there might have been a great waste of capital and a misdirection of economic energy. Similarly, the formation of banks with special functions was necessary in order that the Government might promote the development of all the different branches of commercial and industrial life."

Dr. Jeidels : There is certainly much in this praise of the Japanese system. It has raised a very large building, but one hears doubts whether the building is solid. It is not my opinion that it will not last, but the question seems to me not definitely settled. I would recommend that opinion be taken of a better expert than I am on the subject.

Mr. Manu Subedar : Have you heard that the Japanese have built up their economic system very largely on the German model ?

Dr. Jeidels : Yes, with regard to education for instance ; they modernized and standardized their country along some lines which we experts have suggested for this country. I had some of the Japanese methods in mind when recommending radical standardizing and modernizing of part of Indian national life along our western definition of efficiency.

Mr. Manu Subedar : Did they modernize their economic life on the German system ?

Dr. Jeidels : Very largely.

Dr. Trip : May I add that we have the impression that the building of Japanese economic life and banking life was to some extent artificial ? Several banks depend on the help of Government ; especially the banking crisis of 1927 led to a tremendous inflation in Japan, because the banks were practically helped by the Bank of Japan under the guarantee of Government and so no clean-cut was made of the bad debts. The Government had also to sustain very heavy losses out of the investments of postal savings, with the result that now nearly 15 per cent. have been lost.

Mr. Manu Subedar : But the mere fact that a banking crisis arises after a certain period in a country would not lead you to condemn the foundation of its economic life or its system generally ?

Dr. Trip : No.

Chairman : Do I understand you correctly to say that your impression in the Dutch East Indies was that the Japanese system of banking, owing to Government interference and assistance, was an inefficient system ?

Dr. Trip : No, it was to a certain extent an artificial system.

Ch. Mukhtar Singh : We read in the books that in Bavaria a pencil factory was started by Government.

Dr. Jeidels : It may have been 100 or 150 years ago, but not during the last 50 years. The pencil industry is an important industry in Bavaria, but to my knowledge it was not started by the State.

Ch. Mukhtar Singh : From what you say, one would think that because it was started 100 years ago the State did not help it. Another impression would be that it was never started.

Dr. Jeidels : I only know that at present it is carried on as a private enterprise.

Ch. Mukhtar Singh : There is again the watch industry in Switzerland started by the State.

Dr. Jeidels : It is not known to me.

Mr. Manu Subedar : Would you say that no active assistance was rendered by the State in Germany to the beet-root industry ?

Dr. Jeidels : Yes, but no financial assistance by way of furnishing capital to the industry.

Mr. Manu Subedar : What form did the assistance take ?

Dr. Jeidels : There was an export bounty, but I cannot tell you whether it was a syndicate bounty, using the tariff walls to keep the prices up in the country and selling at low prices abroad, or whether it has been a Government export subsidy ; I think the latter existed for a time early in the century.

Mr. Manu Subedar : But they gave very cheap export rates on the quantity which went as export.

Dr. Jeidels : That system is exercised with regard to many industries.

Mr. Manu Subedar : From State railways ?

Dr. Jeidels : We have no State railways any longer.

Mr. Manu Subedar : I am talking of the past.

Dr. Jeidels : Even as a private company the railways give certain low freights for export. I think it is a good system of State aid.

Ch. Mukhtar Singh : When you speak of the small industry, do you think that the industry is considered small on account of the small capital required for it or the volume of the industry itself ?

Dr. Jeidels : The industry itself is generally carried on a small scale. Hand-weaving, for example, is a small industry, so also goldsmith and silversmith work.

Ch. Mukhtar Singh : But the volume might be very large.

Dr. Jeidels : The unit in which it is carried on is small.

Ch. Mukhtar Singh : Do you really consider that among the industries which have a direct competition with the mass of production it is possible for small industries to carry on ?

Dr. Jeidels : I think so, they can compete if they choose the proper fields.

Ch. Mukhtar Singh : They would have to specialize in certain directions. In order to maintain an efficient level, they will have to use a very efficient technical staff for advice.

Dr. Jeidels : Efficient, of course, but it need not be very highly skilled or expensive management.

Ch. Mukhtar Singh: I do not mean management. Suppose there are a number of weavers working in a certain place. They produce very good cloth which finds a market and the factory has not been able to devise some means by which they can produce better stuff. After a certain time the big factories might take to it and in that case the industry would go unless some other organization finds some other pattern of cloth which will have a better market.

Dr. Jeidels: There is in all countries a fight between small and large industries and the large industry has a tendency to expand business; but there are certain fields in which the small industry can well hold its own in competition.

Ch. Mukhtar Singh: My point simply is that a small man tends to lose much more in competition with a big organization, because he has no help.

Dr. Jeidels: If, for example, the hand-weaver makes only the same normal goods as the cotton mills, he will probably be at a disadvantage. Low wages, low overhead and general management charges, or the vicinity of a consuming centre may act as features in his favour, but generally speaking, if he tries to compete in the same kind of goods as large industry, he has little chance.

Ch. Mukhtar Singh: That is not my point. If there is a small industry, it must specialize; otherwise it would not find a good market or survive. In order to maintain it at that level, there ought to be some organization to maintain it at that efficient level, either of those people themselves, or there must be some outside organization. That outside organization or inside organization would be a very costly one and therefore either it must be State aid in some form or other, or some banking institution which should provide that efficiency.

Dr. Jeidels: I would prefer other forms of State aid than just financial one. Financial State aid is very difficult to administer in these cases. Trade schools can educate the population not to a very high level, but just to that level which is necessary for these small fields of economic life.

Ch. Mukhtar Singh: There is no organization to provide finance besides co-operative banks?

Dr. Jeidels: Nothing outside of co-operative societies.

Ch. Mukhtar Singh: And the co-operative society does not get any State aid?

Dr. Jeidels: None whatsoever.

Mr. Devadhar: You would be in favour of the State helping propaganda and education?

Dr. Jeidels: Yes.

Mr. Devadhar: That would be quite legitimate.

Dr. Jeidels: Yes.

Mr. Devadhar: But would you like the State to give direct financial assistance at any stage?

Dr. Jeidels: I am not in favour of it.

Mr. Devadhar: You refer to the Japanese model, information gathered from a Japanese gentleman in Bombay. Here we find banks financing agriculture and industry, both functions are combined in the bank. Is that your idea?

Dr. Jeidels: So far as I have understood the Japanese system, the Industrial Bank finances only large industries, *e.g.*, shipbuilding and engineering.

Mr. Devadhar : Is it something like the hydro-electric scheme in the Punjab ?

Dr. Jeidels : Not quite. It is, as far as I know, not easy to find out in what enterprises the Industrial Bank of Japan invests. Other organizations such as Investment Trusts and Holding Companies publish details, *e.g.*, in Belgium and Switzerland. I have here the details of the largest Swiss Electro-Investment Trust which administers 12 crores of capital and publishes the exact amount of shares held in, or advances given to, companies. I do not know whether similar statements are given by Japanese Industrial banks. It makes a great deal of difference to know what their investments are.

Mr. Devadhar : I believe they have another kind of institution.

Dr. Jeidels : I think they have what is called the Hypothec Bank and the Industrial Bank.

Mr. Devadhar : But it seems that they are combining functions.

Dr. Jeidels : I am unfortunately not in a position to say more than what is said in the annexe to our memorandum and which was given to me by a gentleman of high standing.

Mr. Devadhar : You would be inclined to leave the financing of the small industry to co-operative institutions ?

Dr. Jeidels : Yes, they do it successfully in my country.

Mr. Devadhar : The figures given in the last paragraph of this note seem to show that the small industry is prospering very well in Germany.

Dr. Jeidels : It holds its own fairly well. With regard to the profits, you must always take a rather moderate standard. Among the million members of these co-operative societies there are many proprietors of retail business.

Mr. Devadhar : You have 20 crores of capital and 100 crores of deposits.

Dr. Jeidels : It is a very extended movement.

Mr. Devadhar : In answer to Mr. Ramdas Pantulu you said that you would not be in favour of recommending the practice of big industrial concerns receiving funds from the postal savings bank.

Dr. Jeidels : Generally speaking, not.

Mr. Devadhar : At present there is no lack of funds, but if this kind of movement grows on a large scale, there might be a shortage.

Dr. Jeidels : If the funds collected in the postal savings institution rise to a much larger figure, I think it is worth considering to eventually loan some postal savings funds for business purpose.

Mr. Ramdas Pantulu : They have done a great deal to promote thrift among the people and to make small collections.

Dr. Jeidels : I think it has been discussed previously. Part of the savings in many other countries is devoted to help economic development by advances. It is so not only in Japan, but our German figures show also that the savings institutions use considerable amounts in giving loans for such kind of business which is as a rule embodied in our co-operative organizations.

Chairman : I am simply listening to what you are saying about the utilization of postal savings banks in Japan without any comment. I have got a good deal of information on the subject, but I am not interrupting any of those who have asked questions. I shall take up the matter with you later on.

Mr. Devadhar : You say "although other western countries are less inclined to State activity as commercial or industrial entrepreneur, still the State in some countries has more recently engaged in business and ventures beyond the operation of railways, though rarely outside of public utilities". Will you kindly mention one or two instances ?

Dr. Jeidels : I mentioned Italy. The Bank of England has started a company to assist some class of industry.

Mr. Devadhar : Is this view due to the socialistic policy of some of the States ?

Dr. Jeidels : It is one of the influences too.

Mr. Manu Subedar : An extract was circulated this morning from "Banking Principles and Practice" by Westerfield. Would you kindly tell the Committee, on behalf of yourself and your colleagues, what view you take of the opinions expressed there ?

Dr. Jeidels : It contains some very good remarks, but it is rather comprehensive and covers many subjects.

Mr. Manu Subedar : The main point on which I am anxious to ascertain your view is whether any considerable resources of commercial banks are engaged for capital advances. This represents the position in the United States. Would you dispute the position so far as the United States is concerned, and if you accept the position so far as the United States is concerned, is it not more or less also the position in Germany and other countries ?

Chairman : You are probably referring to the portion 'Extensions of investment Credit' which I believe specifically bears on your point.

Mr. Manu Subedar : The point is with regard to loans which one institution may recall from a borrower but which the banking system as a whole cannot recall from the borrower.

Dr. Jeidels : I think you refer to the section where it says 'no small part of commercial loans are provisions of permanent investment capital'. I think this refers to an industrial firm which changes the ratio of working capital by increasing the fixed capital and reducing the working capital, while at the same time it borrows money ; in such case this money actually serves capital purposes. There is not a sharp line between loaning for working capital and fixed capital. As long as there is a sufficient minimum ratio between fixed capital and working capital, it is quite unobjectionable from the banker's point of view to give a loan which is actually used for capital purpose.

Mr. Manu Subedar : The writer says that the position of the industry as a whole *vis a vis* the banking system as a whole is that the industry is using a lot of money which banks can never hope to get back as a whole.

Dr. Jeidels : I always thought that holds good for all countries.

Dr. Trip : To a certain extent it is true, but only to a limited extent. I am not of opinion that this is done to such a large extent as the writer seems to think. The process is going on. Banks are always renewing to a certain extent. Whether there is this high percentage from 20 to 50 of all the loans of the banks I doubt. I do not think that is the case in my country.

Mr. Manu Subedar : He is a responsible writer for America. For purposes of argument if we assume that it is true, what would be the ratio in your country.

Dr. Trip : I fear I cannot give a percentage. It is impossible.

Mr. Manu Subedar : It would be most helpful to us in basing the estimate for our commercial banks as to what line of safety they could adopt.

Dr. Trip : I would say not higher than 20 per cent. That will be the maximum.

Mr. Cassels : Certainly the position portrayed in the note would not be correct for England. Twenty per cent. of it, I think, will be the outside in the United Kingdom. The same, I think, may be said about Canada as a matter of fact.

Dr. Jeidels : I can give no estimate ; it is pure guess work. You can say that the tendency to borrow for capital purpose is rather extended, but banks of course try to have these customers refund to themselves, in their own business by some financial transaction, those amounts which have been temporarily supplied by banking credit.

Mr. Manu Subedar : There is a flow of new wealth coming in both in the industry as well as in the hands of the bank, but there is a certain quantity which all the same remains.

Dr. Jeidels : Many bank loans are not given to industrial firms at all, and therefore have to be eliminated in this observation ; this proportion of bank loans may be up to 50 per cent. The 20 per cent. of the entire loans of banks, which your author estimates as actually devoted to industrial capital expenditure may be correct, but it is not a very accurate statement.

Chairman : One of my colleagues has observed that as water freezes by cold, liquid advances freeze, but liquid advances freeze on the warmth of heart of the banker and by lapse of time.

Mr. Manu Subedar : Having regard to American conditions, would you regard the American system a better system for the trade and industry of America than the more conservative system which you, gentlemen, have mentioned in your countries ?

Dr. Jeidels : I do not think that the American system is less conservative than the European system.

Mr. Manu Subedar : How do you account for the percentages ?

Dr. Jeidels : I do not subscribe fully to Mr. Westerfield's remarks in his book as quoted. He under-estimates the proportion of commercial loans.

Mr. Manu Subedar : If that is true of western banking, the discrepancy between the ratios of loans for permanent capital and industrial loans could not be so great in America and your country.

Dr. Jeidels : I do not think there is a great variation. Mr. Westerfield seems to make the same calculation as I did just now. He deducts from the bank loans all those loans which are not given to industry, and of the remainder he takes 40 to 50 per cent. as spent on capital. At least this ought to be his method, because bank loans for foreign trade finance or to merchants are never devoted to capital purposes.

Mr. Manu Subedar : He is taking 70 per cent. as commercial loans and says 30 per cent. comes within industrial loans.

Dr. Jeidels : That would mean that the full amount of the industrial loans would go into capital, which is wrong.

Mr. Manu Subedar : Thirty per cent he puts down as capital advances and 70 as commercial advances and says further that the banks not only hold investments themselves, but make advances against investments, which is also a safe method for the bank, but which is also tantamount to banking funds going towards capital purposes.

Dr. Jeidels: That is quite logical. He states a problem of political economy not of banking policy, because bank loans against securities, shares or debentures, have not the financing of industries as object.

Mr. Manu Subedar: The larger purpose which we in our Committee have unfortunately to consider is whether capital for industry will be found, and if so, what would be the processes which would be safe both for borrower and the lender.

Dr. Jeidels: This is the problem of all western banking.

Mr. Rushforth: Could you tell me, Mr. Subedar, when that was written? Was it before the crisis of 1929? The reason why I ask is that I have seen somewhere that they are very seriously considering a new banking enquiry in the United States because of the unsatisfactory way in which the banking system went through the crisis. I was just wondering whether this was a very recent statement of the position in America.

Chairman: I have also read that.

Mr. Manu Subedar: The book was published in 1928. The crisis of 1929 could not have been included in it, but it is intended to be a standard description of American methods of banking; and even if there was a banking enquiry, it might possibly throw a little more light on what to do and what not to do. It might make any change within 5 to 10 per cent., but the 90 per cent. of the system will not be altered.

Mr. Rushforth: It might be said that the large numbers of failures of banks have been due to this rather large percentage in investments. It is just possible that a great many things have happened since the book was written.

Lala Harkishen Lal: When a man has got 50 or 60 years experience of a thing, he keeps to it. Wrongly, the son does the same. That is what happens in banking. This is the life they are living. This is the life which is being lived, not only in America but all over the world. After a crisis the old man begins to think; his son does not.

Mr. Shanmukham Chetty: Could you tell the Committee what percentage of loans of your bank is renewed from time to time and keep going on like that?

Dr. Jeidels: If a bank loan is sound, the bank is interested in keeping the customer and supplying the customer with the credit needed by him. Some customers are, owing to the nature of their business, more on the debit side than on the credit side of banking. A principal distinction is between seasonal credits and permanent credits. A great number of our industries have seasonal demands, but some have permanent demands for working capital; among the industrial clients, the banks certainly try to cultivate most those, with seasonal demands, because they are sometime creditors and sometime debtors. From the point of view of the profit and loss account these are the most desirable accounts, but in many industries bank loans are needed all the year round. The more intensively developed and active an industry, the greater the proportion of such bank accounts.

Mr. Shanmukham Chetty: One-third of the money you have laid out for industries would practically be renewed from time to time.

Dr. Jeidels: A bank is not quite comfortable with those customers who borrow the same amounts practically for years, even if in the form of regular renewals. The banks might in such case even try to get rid of a good customer.

Mr. Shanmukham Chetty: The more the number of customers you keep on, the better it will be from the bank's point of view?

Dr. Jeidels: No; the bank must know that in case of need it can ask the customer to actually repay at maturity instead of renewing the loan.

Mr. Manu Subedar: Is it not the good account you are anxious to retain?

Dr. Jeidels: Yes; of course the good one.

Dr. Jeidels: The ideal customer in industrial banking, as in other banking, is he who is not always on the same side of the balance sheet, but is sometimes a creditor, sometimes a debtor of the bank. Those are the soundest accounts and those which one cultivates most.

Mr. Sarker: Is it very unusual for Government to give guarantee in the interest of national trade and commerce?

Dr. Jeidels.—It has come much more in use in late years than formerly. But it is certainly not in accordance with the classical principles of good public finance. If Government wishes to assist financially, it ought to be able to borrow the money itself and loan it on. This is a sound principle for a private individual as it is for public finance; if I were asked whether I would guarantee a loan to be given to a friend of mine, I should certainly raise the money myself and give him the loan, and if I cannot raise it, I would the less guarantee it. In public finance I consider it a principle to which countries, having followed it up to now, ought to adhere in future also.

Chairman: Therefore, you prefer your plan of Government taking up shares.

Dr. Jeidels: Yes.

Mr. Manu Subedar: You know that the guarantee method has succeeded very well with regard to the railways.

Dr. Jeidels: Railway finance in this country is, if I understood it correctly, such that Government operates most railways, but does not own all, and to the latter it guarantees the interest. This is a special kind of public railway finance which exists in other countries also and which is outside of the object of my statement.

Mr. Sarker: For instance the Irish Government guarantees on behalf of Corporation or different companies, which raise loan for the purpose of capital expenditure; Government gives guarantee. In England also the British Government guarantees exporters up to the value of 75 per cent.

Dr. Jeidels: Yes, but this is not a capital guarantee.

Mr. Sarker: Guarantee is not unusual?

Mr. McDougall: That is done under the regulations with regard to it; there are restrictions.

Mr. Sarker: They will give a guarantee on goods manufactured in England and they will charge a premium?

Dr. Jeidels: This falls into the problem of export finance. In my country too Government does it to a great extent; I think it is not objectionable.

Mr. Sarker: It is guaranteed by the Government?

Dr. Jeidels: I spoke of guarantee for long term loans, guarantee of capital towards the investor.

Mr. Sarker: The Irish Loan Act guarantees to the market?

Dr. Jeidels: That is different, but I do not recommend it.

Mr. Manu Subedar: Your opinion about the undesirability of Government assistance to competitive industry does not imply that you disapprove of such general measures which would tend to assist industries as a whole.

Dr. Jeidels : Not at all.

Mr. Manu Subedar : Therefore, you would not disapprove of the various measures which have been taken, for example, in the United Kingdom ? We do not know the measures of this kind taken in your country, One of the measures taken in the United Kingdom was mentioned now, *e.g.*, Trade Facilities, Export Credits Act, Safeguarding of Industries Act, Agricultural Credits Act.

Dr. Jeidels : Measures to protect a trade as such do not fall under this category.

Mr. Manu Subedar : That is part of the larger economic policy of the State and in this region the action taken by Germany has been eminently the model for the rest of the world as to the various measures carefully devised of which advantage could be taken by industry and trade of the country as a whole, not necessarily by any one industry to the detriment of the other ?

Dr. Jeidels : Exactly so.

Mr. Manu Subedar : That has your general and hearty approval ?

Dr. Jeidels : It has my full approval.

Dr. Trip : That has not my approval if Mr. Subedar means protective duties. I only wanted to make a statement.

Chairman : I have one or two questions. You have said here that Japanese methods and experience ought to be studied more closely. I may tell you that we have been trying our best with the help of such material as we could collect. We have not overlooked that aspect at all. In fact, so far as I am concerned, even at my age my thirst for knowledge is still unsatiable, and that applies even to a greater degree to my younger friends like Mr. Manu Subedar. That is the reason why he has been worrying you with many questions. I think you said at one stage that industrial banking in Japan does not receive deposits. That is the impression you gathered from somebody.

Dr. Jeidels : Yes.

Chairman : As it is, our impression is gathered from firstly a published book, Foreign Banking systems by Parker Willis. Articles have been written by various people and here he gives the details of the principal business of the industrial bank of Japan : one of the items is to receive deposits of money.

Dr. Jeidels : Does the book contain the balance sheet ?

Chairman : I am coming to that presently. After you made the observation, I wanted to verify that point by reference to the Japanese Year Book, and that gives practically a summary of the balance sheets, and under industrial banking, I find deposits 49 millions 22 thousand yen. The deposits are there, and that bears out what Parker Willis has written in his book.

Dr. Jeidels : It may be well to compare these figures with those of regular banks.

Chairman : I have done so. My point is that it does commercial business. It may be that the volume of deposits taken by it is not so much as that taken by other banks, but still it is not debarred from doing the business. This brings me to a sentence, to which I drew your attention, though perhaps you did not like it, where you said that nowhere in the world is this done.

Dr. Jeidels : I have modified that by adding the words " according to our knowledge ".

Chairman : That is according to information supplied in this book and also according to information which came into our possession through other

authorities. There is a British officer in the Colonial service. He has written a pamphlet on the subject. There is another gentleman. We have got another paper from him. They indicate that the industrial bank of Japan does ordinary commission business in addition to the specialized industrial financing. The other point to which I should like to invite attention is this. The gentleman who gave you certain information does not fully know about the true state of affairs. As regards this talk about postal savings being advanced to the Industrial Bank, I will tell you the true position. I think the position is more or less the same in England too. I think I am correct in saying that in England, for example, these deposits which are called floating debts, are handed over to the Commissioners for National Debt and out of that they make investments. In Japan the position seems to be practically the same. The Japan Year Book says: "In view of the criticism and censure often directed to the Deposit Section as to the employment of its funds, the Government effected its re-organisation in 1925 making it a separate department under the control of the Finance Minister. At the same time a new regulation for the employment of this fund was promulgated". Then they give the figures. The total amount with the deposit department was 2,403 million yens at the end of July 1928, of which 1,771 millions were postal savings bank deposits. That sum of 2,403 million yens was invested in the following manner:— National loan bonds, 494 millions, etc., etc., Industrial debentures only 50 millions. That being so, I do not understand how this gentleman got hold of this statement: Government loans to the public in the shape of postal savings in December 1928, 1,798 millions. The 1,798 millions referred to the total deposits in the postal savings banks at the end of December 1928 which corresponds to the 1,770 millions at the end of July 1928. Then he says: "Postal savings in industrial bonds, 30 millions which was referred to. This is part of a general policy." In India I know Sir Basil Blackett wanted, following the British precedent, to make some similar arrangement, but owing to various difficulties that did not mature. But this is quite a different proposition from saying that in Japan a part of the postal savings banks deposits is made available for industries. That is not correct. They have got an institution similar to that in England where the whole of this floating debt is put in the charge of a certain institution, the National Debt Commissioners there, and that body invests the whole of the money in various securities, Government loans and things of that sort. I wanted to know what the position was and the position is different from what you wanted to place before us.

Dr. Jeidels: In studying the figures for the Industrial Bank of Japan we wish to make sure whether the Industrial Bank of Japan falls under the category of their industrial credit institutions of which we have stated that according to our knowledge, they do not anywhere do ordinary banking business. The Industrial Bank of Japan, according to the figures presented, has about 50 million yens of deposits. Now, deposits can of course include credit balances and I am rather certain that it does. They ought not to be called deposits in the sense of ordinary banking and besides the amount is so small that it seems, to me to prove that the bank does not actually do a banking business.

Chairman: According to its Charter it is allowed to do banking business. That is the first point. And the fact that it has got those 49 millions deposits shows that in practice also it is doing banking business. Its ability to attract depositors must depend on other considerations, that is the desire to invite investors to deposit in that bank or in any other bank, but my point was that it is allowed by Statute to do that work and it actually does that work. That was my first point.

Dr. Jeidels: If you would say it does occasional banking business, I would accept it, but whether it is ordinary banking business is another matter.

Chairman: If you look at the other side, it discounts bills and deals in bills of exchange. That is ordinary commercial banking, and if you look at its assets I think that will also be brought out. "Bills discountable, Industrial Bank, 90 millions".

Dr. Jeidels: They represent the liquid assets of the bank,

Chairman: Yes, that was my only point. We had studied the position so far as we could get it from various sources in regard to the Industrial Bank of Japan—I admit at this stage I did not look into these balance sheets—and we undoubtedly came to the conclusion that it was allowed to do commercial banking business. I think that pamphlet of Mr. Allen's, to which Mr. Sarker referred, brings that out very clearly. Then, because you mentioned this, I said: "Very well, I never tried to verify it; let me verify it by referring to the Japan Year Book", and those are the figures given in the Japan Year Book and they certainly bear out the point that it does commercial banking. It may not do it on a large scale; it probably does it so far as it is required to finance industries with which it is concerned.

Dr. Jeidels: I do not think so, because the entire assets of that industrial bank must be about 400 million yens.

Dr. Trip: The credits are 325 millions.

Dr. Jeidels: And if you take the liquid assets, which we heard were 90 millions, it must be about 400 million yens.

Chairman: The total assets of this industrial bank are 487 million yens and out of that you have got 90 millions in bills and, similarly, on the other side in regard to its liabilities, out of the 487 millions naturally the biggest item is 269 millions in deposits. My sole point was this. You began by saying that nowhere is this done, and I say it is done there. In the case of a bank like this industrial bank, naturally the largest item on the liability side must be debenture loans, and that is so; but there is no bar either in its Charter or in actual practice to its doing ordinary commercial business, one of the items of such business being the receipt of deposits.

Dr. Trip: Only with regard to industries.

Chairman: Possibly with regard to industries, but when they say here in the enumeration of principal business, to receive deposits, there is no restriction imposed on it. These are the two points I wanted to bring out before and the other to clear up the position in regard to the postal savings business.

Dr. Trip: May I say a word in regard to that. A difference must be made between real investment only with regard to the soundness of the investments and, on the other hand, investments that are made in order to help industries. In my country these monies are only invested in order to get sound investment, while in Japan it is done for special purposes.

Chairman: What is the evidence of that?

Dr. Trip: My first evidence is that they lost on these investments already 15 per cent.

Chairman: On these investments?

Dr. Trip: On these investments to which you refer they lost already—there is an official statement to that effect—15 per cent. of the total amount.

Chairman: Of the above investments 342 millions invested in the following are regarded as bad loans. That really gives you 15 per cent., but there is no

indication here to show that when they invested they did not consider the investment to be a sound one. I will give you the bad debts. Loan to the Chosen Bank 56 millions ; probably when they gave the loan the concern was a sound one. Therefore, the fact that they have lost 15 per cent. in bad loans does not establish the proposition that the people in charge of the department in Japan make loans irrespective of the soundness of the investment.

Dr. Trip: I do not say that, but they do not make an investment with the sole purpose of making a good investment. In Holland it is fixed by law what investments they may make ; there are no shares, for instance ; only debentures, what may be called trust debentures.

Chairman: I think that is the custom in England ; they invest in trust securities, but that again would depend on the legislation which a country passes. Here, for example, it is possible that a similar arrangement may have to be adopted some day. I know, if Sir Basil Blackett would have discovered some practical arrangement for pursuing it, he would have pursued it, and then a Bill would have been passed through the Legislative Assembly and the Legislative Assembly would then have indicated the securities in which this particular money could be invested. The degree of prudence is to be determined by the legislative enactment passed by the Legislature of the country. Once that is done, the people who administer that particular money cannot go beyond the provisions of the legislative enactment. Dr. Jeidels, however, gave the impression that in Japan they do it more or less from the point of view of assisting industries. That is not the position in Japan.

Dr. Trip: I think they do.

Chairman: This does not bring that out. They might have done it before the re-organization effected in 1925.

Mr. Manu Subedar: May I ask Dr. Trip one question ? Would there not be a difference between the very low rate which would be allowed on savings deposits on the one hand, and the fair rate at which the loans would be given out ? There would be a difference, would there not, between the loaning rate and the rate at which the savings deposits would be taken ?

Dr. Trip: Of course, there would be.

Mr. Manu Subedar: The savings deposits are in many countries regarded as the cheapest form of deposit depending, as they do, on the credit of the State, and a very small rate is allowed on them in many countries ?

Dr. Trip: Yes, in my country 2·65 per cent.

Mr. Manu Subedar: That being so, the monies lent out would not be at the same rate ; they would be lent out at the current rates at which such concerns can borrow ?

Dr. Trip: Yes, of course.

Mr. Manu Subedar: That difference which would be there, minus the cost of administration, would it not constitute a kind of reserve against contingencies and bad debt ?

Dr. Trip: Yes, to a certain extent. I can tell you that after the War, the debentures which gave a fixed interest, *i.e.*, Government debentures, municipal debentures and provincial debentures, lost such an amount in the stock exchange quotations that our savings institutions were practically down and at a big loss. They recovered later, when the prices went up. The difference between the interest on the one hand and that the other gives a reserve and it is kept in the concern in order to create a reserve.

Mr. Manu Subedar: It would be an appropriate way to create such a reserve against contingencies ?

Dr. Trip: Yes, absolutely.

Chairman: Dr. Jeidels says that the Japanese experiment does not try to finance small industries. The information in our possession about Japan is that, apart from this apex industrial bank, if I may use the word "apex", they have got industrial banks in the various provinces and it is they who finance the small industries. From the information that we have been able to secure we find that there is that system of a central institution *plus* provincial institutions. Now, Dr. Jeidels, though he wants us to study closely Japanese methods and experience, does not advocate that we should follow it. He says: "What has happened in Japan in the last few years is a grave danger signal". I have no doubt that he knows, as well as I do, the reason underlying that temporary stoppage of payment. He is referring to the moratorium which took place first after the War and then the earthquake. If a crisis of that sort intervened and there was afterwards a moratorium, that certainly would not demonstrate the inefficiency of the Japanese system.

Dr. Jeidels: Certainly not. But the crisis I alluded to or at least wished to allude to, was the severe economic crisis following the boom after the earthquake.

Chairman: Yes, on the earthquake bills.

Dr. Trip: Yes.

Chairman: I have no further questions on this paper and, we have just about an hour left. I have not touched the question of the urban co-operative organisation because I take it we will hear more about that from Dr. Friederich later on. As regards the other paper, perhaps I may set the ball rolling by referring to one point which seems to me the most important point in this document. Now, I take it that you are opposed to the idea of licensing banks. I am not referring to foreign exchange banks but I am referring to a universal system under which all banks working in the country will have to obtain a licence. It is the system in Canada; it is the system in Japan; on that point we have definite information from some of these books. It seems to me you admit that it is possible for the foreign banks to improve their relations with their Indian customers. It has often been pressed on us that one of the tangible ways by which we can compel a bank—call it a foreign bank—to be sympathetic towards its Indian customers is this method of licence, because then the bank knows that if it has not behaved properly, on the expiry of the period of the initial licence its licence may not be renewed, and that operates as a sort of automatic safeguard. That is an argument which I believe has been used before us. I am not placing before you any provisional conclusions arrived at by the Committee or any provisional conclusions arrived at by myself. I am simply placing before you one aspect of the case. It is possible that Lala Harkishen Lal does not agree with that aspect, and I suggest that we might perhaps discuss this general question a bit to-day. Perhaps Lala Harkishen Lal, you, as an experienced banker, might now come in. The proposition we are discussing with the experts is whether it is desirable to introduce in India a system of licensing of banks like what prevails in Canada and Japan.

Lala Harkishen Lal: I could not do it to-day; I have not given serious thought to it.

Chairman: Having mentioned the matter, we will put off discussion till to-morrow, because this is a matter on which I should very much like to know Lala Harkishen Lal's provisional views. We shall leave it at that, and I hope Mr. Cassells will be prepared to tell us why in Canada they have still this system of licensing, what led to its introduction and the reasons for its continuance.

MEMORANDUM ON FOREIGN TRADE FINANCE— EXCHANGE BANKS.

By Dr. Jeidels.

Data are already available on the volume of foreign trade to be financed, on number, size, nationality and relative importance of the various exchange banks operating in this country. These facts are considered to be familiar, and so is the technical working of foreign trade finance as handled by those banks. The exchange banks are all banks with head office outside of India. They have all their capital in other currencies than rupees. It seems appropriate for the experts to investigate the question whether and what kind of dangers and eventually what advantages there are in this activity of the foreign banks.

Criticism in India, as in every other country, could take the following direction :—

(1) Efficiency,

(2) National policy,

(3) Competition.

1. (*a*) Is the foreign trade of the country fully financed? It can scarcely be disputed that in India the facilities are equal to the volume of such trade and indeed that they are sufficient for a considerably larger volume. Increased trade with countries outside of the British Empire has attracted a number of strong banks from those countries.

(*b*) Banking facilities may be too expensive. In India keen competition between the exchange banks of different origin has had the effect of securing decidedly cheap rates. Such competition has certainly proved to be very helpful for the trade of the country.

(*c*) Specialised financing of foreign trade may lead to neglect of inland trade. In India, as in other countries of similar structure, exchange banks have, under the pressure of competition, extended their activities to financing the collection of export goods and distribution of import goods.

The answer to the enquiry into the efficiency of Indian foreign trade finance cannot be otherwise than favourable.

2. In every country banking is expected to assist on the development of trade as national institution. (*a*) There is a natural suspicion that foreign banks might tend to discriminate against national goods or national merchants. The Banking Enquiry has heard much criticism in this direction, which has been strongly disputed by the exchange banks themselves. We have, of course, within the short time at our disposal not been able to investigate these complaints fully, but we have not gained the impression that there is intentional discrimination against Indian merchants. It is, however, not inconceivable that a foreign bank, despite its being thoroughly established in India, is sometimes not in as good a position to cultivate the Indian customer as a strictly Indian bank might do. Adaptation to the needs of the country served together with the competition between the foreign exchange banks seems to have helped to alleviate this grievance. If the Imperial Bank would be

also in a position to do foreign exchange business it would be a further stimulant for the foreign banks, to assist the Indian merchants and thereby satisfy a widespread sentiment. The question of removing the legal restriction of the Imperial Bank has been alluded to by the experts in reviewing commercial banking. It is to be hoped that the early establishment of a Reserve Bank will enable the Imperial Bank to enter this business. In addition joint stock banks can establish foreign connections, useful to their clients, without building up a full business of foreign exchange. (*b*) From the national point of view it may be urged that banking in the hands of foreign firms does not give as much employment to Indians as would be the case with purely Indian banks. Apparently the number of Indian employees with the foreign banks is increasing, particularly where the banks extend their activity into the interior. The policy is to be encouraged. (*c*) Another national argument against foreign banks is directed against the use of deposits collected in the country for outside banking purposes. For India this criticism is not justified as the exchange banks use their funds in the normal course for the purpose of financing Indian trade and thereby drawing considerable seasonal funds from abroad. The exchange risk works every where in this direction; for India especially the higher rate of interest, compared with the countries from which the exchange banks originate, is a sufficient safeguard. The profits of the exchange banks leave the country in the form of dividends. They are in payment for the employment of foreign capital, which is used by India, as by many other countries, in large amounts and, generally speaking, should be rather attracted than discouraged.

3. There is the criticism that foreign banks by their competition render the development of national banking institutions more difficult. It can scarcely be denied that the exchange banks because of their resources and experience are strong competitors. It is, however, doubtful whether Indian banks could replace the foreign banks considering the large capital and international connections of the latter. The financing of foreign trade is essentially international. Foreign trade is co-operation between two countries, the exporting and the importing. A very large proportion of the foreign trade of India will always be a foreign affair and correspondingly of the banking service.

Under the aspects as outlined, the experts arrive at the conclusion that the benefit which the trade of the country derives from the existence of the exchange banks largely exceeds the actual and sentimental disadvantages. The country has the resources of some of the strongest institutions of the world at its disposal for a form of international finance which requires strong capital and connections. There is no reason why the foreign banks, from the very reason of their existence and under the pressure of competition, should not be interested in developing the country's trade whether in India or elsewhere. The experts recommend, however, to the exchange banks that the fullest consideration should be given to Indian sentiment which is in no way unnatural. They recommend that all possible business with Indian firms should be cultivated, and the employment of as large a proportion of an Indian staff as is compatible with business principles, in a field which requires international education and experience.

The experts do not recommend that the competitive argument against the exchange banks should be allowed to influence the decisions of the Committee. The facilities granted by the exchange banks are far too valuable for the trade, and thereby for the development of the country, to dispense with them or to curtail their activity.

From this general view the experts cannot recommend those measures which have been suggested to the Banking Enquiry Committee about regulation of banking with special regard to the exchange banks. Their opinion on the principal suggestions put forward is the following :—

(1) The experts do not advocate a system of licence. It may, under safeguards, be acceptable to the existing exchange banks, as it may serve the exclusion of further competition by foreign banks. The experts do not, for the present, recommend any restriction on such competition. The country should enjoy all the banking facilities which are, or can be made, available. They are, however, under the impression that there is no need for further foreign banking facilities in the near future. The licensing system might be desirable if banks of insufficient capital or standing were working in the country or were likely to do so ; as it is, it seems unnecessary.

(2) Limitation with regard to taking deposits seems unnecessary because the exchange banks, according to the figures submitted by the Secretary, do not attract an undue percentage of private deposits. There has been practically no change in the respective shares of the Imperial Bank, the joint stock banks and the exchange banks from 1919 to 1928, according to the Secretary's summary. Interference with the exchange banks' Indian deposit would curtail the banking facilities of the country for the reasons outlined by Mr. MacDonald, quoted in the Secretary's summary, page 41. Special tax on deposits would be an act of official discrimination to be deprecated on general grounds ; in any case it would possibly be ineffective.

(3) A compulsory formation of rupee companies for the Indian business of the exchange banks would have no practical effect with the exception of creating a Board of Directors in India. The rupee capital of the new company would, of course, be smaller than the present one of the mother institution. To give the Indian depositor the first charge on the Indian assets is not compatible with international law and would result in a shrinking of the outside resources of the banks which are now at the disposal of Indian business.

(4) The exchange banks have been criticised for imposing non-Indian Insurance on Indian merchants for imports and exports serving as security for credit facilities from the exchange banks. Legislative measures are considered by the experts as impracticable. A bank must be able to decide about the security for advances against goods, and interference will tend to reduce facilities. But the experts recommend that the exchange banks in this matter should give full consideration to the need for the progressive development of Indian business and should deal with Indian Insurance in a sympathetic manner.

(5) An Advisory Council of each exchange bank in India may be useful for the banks, but is likely to attract important merchants to such Councils. This might prove to be to the disadvantage of other banks.

(6) Fuller statements of the exchange banks about their Indian business than at present would probably be prescribed by a Reserve

Bank, which in other countries organises the regular publications of banks on a common basis which is now lacking.

(7) Finally the suggestion of establishing a special Indian foreign exchange bank, requiring a large share-capital, might prove to be more in competition with the joint stock banks and the Imperial Bank than with the exchange banks. This institution would, in practice, not be able to concentrate on foreign exchange business and would have to encroach upon the field of other Indian banks. The experts see no objection to new Indian bank of such a nature to coming into existence, with private initiative and capital, but deprecate State-aid for such purpose.

Mr. Sarker : In paragraph 1 (c) of your memorandum you say :

"In India as in other countries of similar structure exchange banks have under the pressure of competition extended their activities to financing the collection of export goods and distribution of import goods."

I have not been able to understand what you are referring to.

Dr. Jeidels : The criticism is not justified that the exchange banks concentrate exclusively on the port towns and neglect to finance goods from inland to ports or from ports to up-country.

Mr. Sarker : Do you recommend that they should be allowed to establish branches in the up-country ? Even if they compete with our joint stock banks should they be allowed to establish their branches ?

Dr. Jeidels : Yes. It would increase banking facilities on the normal road of competition.

Mr. Sarker : Even if it hinders the growth of our new commercial banks you will recommend it ?

Dr. Jeidels : I would not mind.

Chairman : That point was discussed in connection with commercial banks.

Mr. Sarker : Can you name any important country where the entire financing of foreign trade is dependent on foreign banks ?

Dr. Jeidels : China, Dutch East Indies, South America.

Chairman : You have said—'In India as in other countries of similar structure'. Will you kindly explain that portion 'as in other countries of similar structure'. It may meet Mr. Sarker's point.

Dr. Jeidels : It means a country of large agricultural resources, historically developed from ports up-country.

Mr. Manu Subedar : India's development is not from ports up-country historically. Ports came later.

Dr. Jeidels : I am speaking of modern business and industry.

Mr. Sarker : You say—From the national point of view it may be urged that banking in the hands of foreign firms does not give as much employment to Indians as would be the case with purely Indian banks. Apparently the number of Indian employees with foreign banks is increasing particularly where the banks extend their activity into the interior.

Have you enquired what sort of employment is given to Indians in these exchange banks ? Is it merely clerical ?

Dr. Jeidels : It is not merely clerical ; but it is not the management.

Mr. Sarker : Don't you think that some provision must be made for giving more employment to Indians on the management side ?

Dr. Jeidels : I do not know what can be done.

Chairman : Apart from management are any facilities at present given to Indians in these exchange banks for employment in the higher grades ? You call them all in Germany or in England clerks. But here I believe Indians alone are restricted to the clerical employment and above them come assistants, and so far, the exchange banks have not adopted the policy of giving to Indians any share of the appointments of assistants.

Mr. Buckley: You have first the Agent or Manager. Then you have the Sub-Agent or Sub-Manager, then Accountants, Sub-Accountants or Assistant Accountants, and they are all called officers.

Chairman: But the point is that even below the management and above the Indian clerks there is a number of better paid appointments even to which from the evidence before us connected with exchange banks they have not so far admitted any Indians.

Dr. Jeidels: The paper submitted contains the recommendation that Indians should be given such employment as is compatible with business principles. It is a field which requires international education and experience. The paper shows that we recommend or I recommend that exchange banks should go on with that policy of giving to Indians as large a proportion of positions of responsibility as is possible, and it also shows the line at which the limit should be set; it is not a national line, but it is a line of special qualifications for this kind of business.

Chairman: Before we proceed I want to make one point clear. You said 'I recommend'. Is it that the views contained in this paper are not accepted by other experts?

Dr. Jeidels: The views are those of all experts.

Mr. Sarker: You say:

> The profits of exchange banks leave the country in the form of dividends. They are in payment for the employment of foreign capital, which is used by India as by many other countries in large amounts.

Our opinion is that in financing this foreign trade these foreign banks bring very little amounts from their own country.

Dr. Jeidels: They put their capital at the disposal of the depositors. They would not be able to do any business in this country if they had not put up capital of their own.

Mr. Sarker: Their capital is used by all countries.

Mr. Buckley: I think the figures put before the Committee do not bear that out. On the 31st December 1929 eight principal British exchange banks had between them 16 crores brought into the country and invested in India.

	Non-Indian.	Indian.
Current accounts and money payable at call	13·8 crores.	16·6 crores.
Total .		30·4 crores.
Fixed and short deposits . . .	9	18·5
Total .		27·5 crores.
Grand total .	57·9 crores.	
Advances in India: Loans, Cash credits, over-drafts and local bills discounted—		
Non-Indian	10·5 crores.	
Indian	26·2 „	
Total .	36·7 „	

Mr. Shanmukham Chetty: Does this non-Indian investment mean capital from abroad? I thought it meant deposits taken from non-Indian residents in India.

Mr. Buckley: The Secretary asked what deposits were received in India and how they were disposed of. There is an impression, after the Lloyds Bank incident, that exchange banks used a large amount of their deposits received in

India outside India. In order to assure that it is not the case these figures have been obtained. From these figures you see that deposits in India from non-Indians and Indians total 57·9 crores and there is in India invested in Government and other Indian securities and Indian Treasury Bills 24·6 crores, bills on London 6·4 crores, and after all these figures are deducted it is found that 16 crores are brought from abroad and invested in India.

Mr. Manu Subedar: These figures are by no means conclusive and do not necessarily lead to the conclusion which Mr. Buckley suggests. After the examination of exchange banks, representatives last September, I suggested that we should get figures for 4 dates in the year so as to eliminate the seasonal factor, and I also suggested that we get figures separately for each British bank and for each foreign bank working here. I was told that the Chairman would take up this question when he went to London. I should like to know what is the position in that regard.

Chairman: There was no question of my taking up anything in London with regard to British banks. I understood from the Deputy Chairman that one date in the year would be good enough. Regarding the second point, I understand figures are being collected and that one figure is still not available, and as soon as this figure is obtained, the figures for non-British banks separately and together will be circulated.

Mr. Manu Subedar: It is really most misleading if we have all the figures together. Whatever the reasons may be for not disclosing these figures normally, any enquiry of this kind has got to go minutely into the question. Particularly people, who desire the position of these foreign banks not to be touched, are most anxious that these figures should be got. I cannot understand how these banks working under the law and protection of this Government can refuse figures for the specific purpose for which we want them. They may give the figures to us in camera. But I consider it essential that we should have figures separately for each bank for 4 dates in the year so as to eliminate the seasonal factor.

Chairman: The figures are not there. These are the figures that have been collected. As regards the other points, to the best of my recollection, I believe the matter was discussed by you with the Deputy Chairman.

Mr. Manu Subedar: It is a matter of correspondence and the correspondence is there. I made it quite clear that one date is not enough, and it is most misleading.

Mr. Sarker: In arriving at this conclusion have you considered the amount of money that these banks bring in from foreign countries, the money they utilise from the deposits of this country, and the amount of profit they make every year.

Dr. Jeidels: No. These figures are not available.

Mr. Sarker: How can you bring these foreign exchange banks effectively under the control of the Reserve Bank when it is created ? I have not been able to understand it.

Dr. Jeidels: The Reserve Bank, without having any legal right to go into the details of any single bank, can actually exercise an effective control over it. They can call for statistics. All banks have to use the Reserve Bank, and the position which the Reserve Bank derives therefrom gives it powers which are very extensive without having to be included in a central banking law.

Mr. Sarker: Indian banks will have to go to the Reserve Bank for their accommodation through the money market, but if the exchange banks desire they might not go to the money market at all: they can bring in foreign money, and how will they come under the control of the Reserve Bank ?

Dr. Jeidels: I think the foreign exchange banks too will have to use the Reserve Bank in many different ways.

Dr. Trip: We have somewhat the same position in Java. All exchange banks want to have an account with the Reserve Bank, and they all have credit facilities from the Reserve Bank. They are all members of the clearing house arrangement. It would be impossible for a foreign bank to do business in Java without the co-operation of the Reserve Bank.

Mr. Manu Subedar: Is that your experience with regard to South Africa. The South African Central Bank has no control over the two English banks there, which have the facility of going to the London money market.

Dr. Trip: I don't know the conditions in South Africa. I have only heard that the reserve bank has no influence at all over the English banks. I have read in the report of Professor Kunmerer and Vissering that the Reserve Bank of South Africa had practically no control whatever over the two English banks in South Africa. But I think that is a special case. The position of the Reserve Bank in South Africa is different from the position of the Reserve Bank we want to have in India.

Mr. Manu Subedar: In my mind there is a great parallel between the South African and Indian conditions. After the Reserve Bank has been started here, the total operations of foreign banks would still be considerable and I do not think the Reserve Bank will have effective control. In South Africa the total operations of the two large English banks, which have their offices in London, are so large a proportion of the total South African operations, that the reserve bank can only plead with them in a friendly way, but can have no effective control if these banks defy.

Dr. Trip: I have only read that in South Africa the reserve bank has practically no influence over foreign exchange business, but I suppose the position will be different in this country.

Mr. Manu Subedar: Do you know of any country in the world where banking operations are done on a large scale by banks with head offices abroad and where the reserve bank has control over the foreign banks ?

Dr. Trip: The case of the Dutch East Indies. We have a central bank there.

Mr. Manu Subedar: Do you have a central reserve bank or merely a central bank.

Dr. Trip: A Central Reserve Bank with power to issue notes, to operate on foreign exchange and to control the currency of the country.

Mr. Manu Subedar: The Central Reserve Bank in Java has effective control over those banks whose offices are not in Holland.

Dr. Trip: Yes. All have an account with the Reserve Bank. They are members of the clearing house arrangement.

Mr. Manu Subedar: In what position does it stand to the Netherlands Central Bank ?

Dr. Trip: In no position whatever. It is independent.

Mr. Manu Subedar: No consultation whatever.

Dr. Trip : No.

Mr. Manu Subedar : Can it operate quite independently without any harm ?

Dr. Trip : Yes. Absolutely no control from outside.

Mr. Manu Subedar : With regard to Java, would you kindly tell us the principal foreign banks, that are non-Dutch, operating in Java.

Dr. Trip : I can't tell you off-hand. I suppose there are 8 or 9 of them.

Mr. Manu Subedar : Have you got any local banks established in Java ?

Dr. Trip : No.

Mr. Manu Subedar : You have no scope for the establishment of local banks in Java.

Dr. Trip : No Indian bank.

Mr. Manu Subedar : All the banks must therefore necessarily be foreign banks.

Dr. Trip : Yes.

Mr. Manu Subedar : How many banks, other than Dutch banks, operate in Java ?

Dr. Trip : The Chartered Bank, Hongkong Bank, Mercantile Bank, Yokohama Bank, and two or three others.

Mr. Manu Subedar : What would be the proportion of the operations of these banks to the total amount of banking operations in Java.

Dr. Trip : No figures are available.

Mr. Manu Subedar : You can venture a guess.

Dr. Trip : They mainly do foreign exchange business.

Mr. Manu Subedar : In this line what is their share roughly ?

Dr. Trip : I cannot tell you. I do not know what their share is in the bills that come to the market.

Mr. Manu Subedar : Do they handle their own national trade or also any other ?

Dr. Trip : They handle mainly their own trade.

Mr. Manu Subedar : Can you give us the figures ?

Dr. Trip : Certainly not now. I will look into it.

Mr. Sarker : Foreign trade is due to co-operation between two countries, one exporting and one importing. Don't you think that in banking circles also some sort of co-operation must exist, I mean that the financial activities in each country should remain in the hands of that country's nationals ?

Dr. Jeidels : Part of the foreign trade of a country is always financed by the other side, either the importer or the exporter.

Mr. Sarker : What is the position here ? The entire business is in the hands of foreign banks. To the extent of half the trade at least, we can expect that our banks should finance it.

Dr. Jeidels : That is the maximum limit.

Mr. Sarker : Then as to your general recommendation, in regard to Indians taking a larger share in the foreign trade, it strikes me that for some time to come we shall have to be satisfied with being dependent on the goodwill and sympathies of these foreign banks. You have nothing more to recommend ?

Dr. Jeidels : I can only recommend that a country which wants to develop its internal and foreign trade should have the best available banking facilities. Banking is the instrument of economic development and not the economic development itself, and that instrument ought to be the very best, just as the instrument to maintain a man's health, his doctor, must be the most efficient. This is the line on which we argue.

Mr. Sarker : So, as long as these strong exchange and foreign banks are in India, we should not try to replace them by our own institutions ?

Dr. Jeidels: Everything is acceptable which does not curtail banking service and facilities.

Mr. Sarker : Then in starting a new exchange bank in India why do you object to State aid ?

Dr. Jeidels : Because I object to State aid for all competitive business. But in this case, I have a specific reason. Such a bank would be a competitor to all existing banks including the Indian banks. It would not only be a competitor to the exchange banks but to all existing banks, because it could, in my opinion, not specialise on foreign trade financing, just as the exchange banks do not entirely specialise on it. Therefore the new bank, which in itself is quite unobjectionable, would create competition for those banks. We specifically say that there is no objection to a new bank ; as we take the general view that banking facilities ought to be encouraged, there cannot be criticism on our part against the formation of a new exchange bank. But we must draw attention to the fact that it would compete not only with the exchange banks but also with all existing Indian banks, the joint stock banks and the Imperial Bank. There is no objection from our point of view against the new bank itself.

Mr. Sarker : You would not allow competition with State aid, but if foreign banks with their own State aid come here and compete with us how can you prevent it ?

Dr. Jeidels: According to our advice you cannot prevent it and you should not prevent it ; you should also not prevent a new bank, but we draw attention to the fact that such a new bank does not only compete with the foreign banks but also with the Indian banks.

Mr. Sarker : You do not want the new bank with State aid to compete with existing Indian and foreign banks. That is your proposition ?

Dr. Jeidels : Yes.

Mr. Sarker : But if a foreign bank with their own State aid compete with us, for instance, as the Yokohama Specie Bank with their State aid is competing with us, what then ?

Dr. Jeidels : They compete with you by establishing good banking facilities. This efficient banking facilities for India that we consider the principal object. We are not considering in the first line the bank's point of view, but the development of the national resources of India, and we, therefore, cannot recommend to do anything against the competition of this special bank mentioned by you.

Mr. Sarker : You mean that you will not stop competition, even with State aid, if the instrument is efficient ?

Dr. Jeidels : Yes.

Mr. Sarker : Then if we can set up an efficient instrument with State aid you would have no objection ?

Dr. Jeidels : I cannot conceive the case, that you establish a foreign exchange bank which will not be in competition with Indian banks.

Mr. Sarker: But you have no objection if the instrument is efficient, as in the case of the Yokohama Specie Bank ?

Dr. Jeidels: But not with State aid.

Chairman: Mr. Sarker's point is this. There is this Yokohama Specie Bank. That bank has received a subsidy or State aid in some form from the Government of Japan, and it is competing in the field of foreign exchange in India. Now, according to your statement, that bank should be allowed to compete in this business. If that is so, how can you object to an Indian joint stock bank with some form of State aid being allowed to compete in the same business ?

Dr. Jeidels: India is not concerned with Japanese State aid ; that is for the Japanese to decide. But Indian State aid I cannot recommend. Anyhow, I consider it a hypothetical case, because I do not think the Japanese banks enjoy State aid.

Dr. Trip: As far as I know, they have not. They have received Government help when they were in difficulties.

Dr. Jeidels: It is a question of fact whether one or all of these foreign banks have State aid.

Chairman: We may call it State aid. Mr. Sarker's point was that if a foreign exchange bank, with State aid from the Government of its parent country, came into India and competed in the exchange business, you do not object to that competition ; then why do you object to a similar competition from an Indian joint stock bank which also receives some State aid ?

Dr. Jeidels: Because you use the Indian tax-payers' money to create competition for existing Indian banks. Japanese money, if it really is used, does not come out of the pockets of the Indian tax-payer.

Mr. Sarker: But if the Indian tax-payer does not object, there is nothing against this sort of banking ?

Dr. Jeidels: That is a hypothetical case ; I have not seen such tax-payers yet.

Mr. Rushforth: May I make a statement ? From practical experience I think the reason why they have been able to compete so severely, not only with Indian banks but also with British banks, is that in the market they operate in more countries than the others do. I know on many occasions the Yokohama Bank has been able to cut rates because of special cover either in Japan or America which the British banks do not have.

Dr. Jeidels: Did State aid do that ?

Mr. Rushforth: I do not think it is State aid. My impression is that they work very much.....

Chairman: But there has been State aid. We have definite evidence. This is what is said about it :—

> "The famous Yokohama Specie Bank was founded with the avowed object of fostering the overseas trade of Japan. The Government not only subscribed one-third of the capital, but also gave it every kind of encouragement and protection."

I understand Dr. Jeidels' point. Your advice is based on the interests of the Indian tax-payer. Mr. Sarker suggested that the Indian tax-payer might approve, in the usual way through his representatives in the Assembly which votes the money.

Dr. Jeidels: To use the tax-payers' money against one particular trade, *viz.*, the Indian banks, I would consider an injustice.

Chairman: That is another aspect. You first talked of the Indian tax-payer and his interests, and I told you that the test there was the consent of the representatives of the tax-payer.

Dr. Jeidels: It is a question of constitutional philosophy.

Chairman: The next point undoubtedly is the effect of unfair competition on the existing Indian joint stock banks? That is undoubtedly a good point.

Mr. Sarker: My submission is that if an exchange bank is created, whose share capital is subscribed partly by Government, partly by the public and partly by the Indian joint stock banks, then that difficulty can be met.

Chairman: I would like to hear Lala Harkishen Lal on that point later on.

Dr. Jeidels: If the banks of the country establish such bank and receive assistance from some quarter, I would consider it quite unobjectionable from an expert's point of view.

Chairman: Anyhow we will pursue that point with Lala Harkishen Lal to-morrow.

4th February 1931.

Mr. Manu Subedar: I would like to ask Mr. Currie whether he can explain why Barclays Bank got itself registered in France in spite of the fact that according to the memorandum there are no legal or other restrictions in regard to foreign banks operating in France.

Mr. Currie: I think it was largely a matter of convenience. Instead of opening a branch in France, they formed a company there, and the result was that their liabilities in France were limited.

Mr. Manu Subedar: They did that from the point of view of the safety of their operations ?

Mr. Currie; Yes.

Mr. Manu Subedar: Ordinarily, people would have more hesitation in putting Barclays (France) Limited ?

Mr. Currie: I do not think so. It does limit the liability of Barclays in France.

Mr. Manu Subedar: From the point of view of the investor do you think it would make a serious difference ?

Mr. Currie: I do not think much, no.

Mr. Manu Subedar: That was a perfectly voluntary action on the part of Barclays ?

Mr. Currie: Yes. On the other hand, the Westminster Bank has a branch there.

Mr. Manu Subedar: With regard to the other remark here that in England you have numerous foreign banks, would it be true to say that these foreign banks handle any considerable percentage of the trade of English nationals abroad or would it be rather that they come there because you have a big money market and they come for the financing of the money market ?

Mr. Currie: I do not think either will be quite true. They come there originally in order to foster the business of their own country. As regards the trade of English nationals, they do give some credit to nationals who have a very large trade in that country.

Mr. Manu Subedar: It would not be true to say that they come there to handle the banking business of the English nationals ?

Mr. Currie: No. They come there largely for their own advantage.

Mr. Manu Subedar: Similarly, Dr. Trip, it would be true with regard to Holland also, that the foreign banks established in Holland are resorting to Holland because it has a money market and they come there as a convenience for their nationals rather than to handle the trade between Dutch nationals and abroad ?

Dr. Trip: Yes, that is true.

Mr. Manu Subedar: With regard to Question 3, you say that no figures are available, Mr. Currie ?

Mr. Currie : No. The banks which operate in London are foreign banks They do not separate their own business from English business.

Mr. Manu Subedar : Therefore it would not be true to say that they receive considerable deposits in those countries ?

Mr. Currie : Not short term. They do receive very considerable deposits of money deposited for 2 months or 3 months.

Mr. Manu Subedar : Occasionally they do so by offering a little higher rate than the English banks ?

Mr. Currie : They compete in the market for long term money.

Mr. Manu Subedar : Would you not, therefore, say that there is no parallel between the situation in India, where the foreign banks have considerable business in the handling of the foreign trade of this country, and your country, where foreign banks do exist but do not have any considerable handling of England's foreign trade ?

Mr. Currie : I think there is no parallel. It is much more developed here than in England.

Mr. Manu Subedar : You know the proportion of the deposits which the foreign banks in this country have to the total deposits ?

Mr. Currie : Yes.

Mr. Manu Subedar : Would the position in England or in Holland be anything like it ?

Mr. Currie : No.

Mr. Manu Subedar : Would they have 33 per cent. of the banking deposits ?

Mr. Currie : No.

Mr. Manu Subedar : Would they have even 3 per cent. of the total banking deposits in England ?

Mr. Currie : They might receive 3 per cent.

Mr. Manu Subedar : It is a guess. What would be your idea ? Would it be somewhere between 3 and 5 or 5 and 10 ?

Mr. Currie : I cannot really say. It is quite small anyway.

Mr. Manu Subedar : Dr. Trip, the same would be the position in Holland ?

Dr. Trip : Yes, it is so small.

Mr. Manu Subedar : Therefore, it is not a real parallel. We could not derive any useful lessons from the situation in your two respective countries ?

Mr. Currie and Dr. Trip : No.

Mr. Manu Subedar : Dr. Trip, you say in answer to a question that, " Dutch East Indies—balances abroad Rs. 7,93,00,000 ". Would the bulk of this be in Holland ?

Dr. Trip : No. It is also in England and the United States.

Mr. Manu Subedar : Could you mention what percentage of these foreign balances would be with Holland ?

Dr. Trip : I could not give the percentage.

Mr. Manu Subedar : You are yourself in charge of this great institution ?

Dr. Trip: Some years ago. That depends on the question whether English Banks come in the market or American bond bills or Dutch bills. There are changes, of course. I can only say that it is not absolutely a question of policy but of the exchange that is offered in the market, whether they are in dollars or in sterling or in florins.

Mr. Manu Subedar: I should have thought without any help from you that the bulk of this investment abroad would be holdings with Holland because your primary connection is with the money market in Holland ?

Dr. Trip: The situation now in the Dutch East Indies is different because the greatest export article is practically sugar and sugar is mostly financed by sterling bills. Of course if the Java Bank is not in a position to obtain bills on bond, then they buy sterling bills. I cannot even say that the largest part of this foreign exchange is held in florins.

Mr. Manu Subedar: The point of my question was the holdings in foreign currency of the Central Banking institution. It is really a subject belonging to the Reserve Bank. As the Chairman has put a very severe time limit I will take it up with the Central institution.

Dr. Jeidels, in paragraph 1 of your memorandum you use the word "eventually" in the last but one line. Do you mean to say there are disadvantages now and later on there will be advantages ?

Dr. Jeidels: No. I wanted to investigate the matter. The exchange banks do a great deal of the banking business of the country. Is it to the advantage or disadvantage ? What are the advantages and what are the disadvantages ? "Eventually" means "on balance"—having considered both sides. The question is put in paragraph 1, and the answer given in the 3rd paragraph.

Mr. Manu Subedar: With regard to 1 (*a*), "Is the foreign trade of the country fully financed ?" you have answered it in the affirmative ?

Dr. Jeidels: Yes.

Mr. Manu Subedar: You think that the deposits and funds available to the foreign banks in this country are adequate for the purpose of financing the foreign trade of this country ?

Dr. Jeidels: Yes.

Mr. Manu Subedar: And also for financing a good part of the internal trade ?

Dr. Jeidels: Yes.

Mr. Manu Subedar: So that if the suggestion were made that they should not take any further deposits, the financing of foreign trade would not be upset ?

Dr. Jeidels: If you reduce their resources, it would certainly have an effect upon the country.

Mr. Manu Subedar: Supposing it was suggested that there should be a limit, that the banks may go under the limit but not over the limit at any time, and if they go over, there should be either total restriction or they should have to pay something to the Government. Assuming we did it, would you say that the financing of foreign trade was paralysed or would come to heavier cost ?

Dr. Jeidels: It would be a disturbance of the machinery.

Mr. Manu Subedar: The financing of foreign trade would not be starved ?

Dr. Jeidels: "Starved" is rather an extreme statement. The machinery would be upset. It is a fine and delicate machinery.

Mr. Manu Subedar: I invite your attention to the consolidated statement supplied by Mr. Buckley. Would you say from these figures that a very small proportion of their existing resources are used in the financing of foreign trade?

Dr. Jeidels: You mean the bills in transit—they do not signify the position fully.

Mr. Manu Subedar: I said they do not in themselves. But there may be other bills held here for the time being. Would you say that a very small proportion of their reserves as they exist to-day is in the normal course used for the financing of foreign trade?

Dr. Jeidels: If you take foreign trade as bills in transit, then yes. I cannot explain these figures; they ought to be explained by those who made them up.

Mr. Manu Subedar: As the figures are, you have seen probably several thousand balance sheets and statements of this kind. Surely you could interpret the figures.

Dr. Jeidels: It is quite unusual. I could not speak from experience.

Mr. Manu Subedar: Can any of your colleagues help us?

Dr. Trip: Your conclusion is that practically a small part of the money is used for the financing of foreign trade.

Mr. Manu Subedar: As on that date. If we had figures for 3 or 4 dates, probably the position may be slightly different. But on these figures, as on that date, it would be proper to conclude that the rest were cash credits, over drafts and local bills.

Dr. Trip: Yes, it is but a part of the foreign trade.

Mr. Manu Subedar: What part?

Dr. Trip: In order to take produce out of the country from up-country to the port.

Mr. Manu Subedar: You would call that foreign trade?

Dr. Trip: Yes, a part of the foreign trade.

Mr. Manu Subedar: What would you call internal trade?

Dr. Trip: By internal trade I would understand trade in those products that remain in the country, and that are consumed in the country.

Dr. Jeidels: We heard here a figure that the internal trade is about 24 times as large as the foreign trade of the country. Foreign trade financing, as I understand it, is the financing of export goods and import goods; transit between two countries of export goods and import goods is the object of foreign trade finance.

Mr. Manu Subedar: I would invite your attention to the fact that cash credits are given to large firms for cotton and for jute; let us say, for standard commodities, on the strength of which they purchase in the interior and bring the goods over to the central market in Bombay and in Calcutta. Partly from this central market the local manufacturers purchase, partly it goes for export. That part, therefore, of the cash credits which goes to the financing of the local purchases would not in your opinion constitute foreign trade?

Dr. Trip: No.

Mr. Manu Subedar: With regard to the interior purchase, it is also a matter of opinion as to where you should stop, *i.e.*, whether you should stop

at the actual shipment ports or whether you should go down right to the agriculturist. Some of us have an idea that the purchase from the agriculturist, the loading of it in the railway and the unloading of it in the central market in the port were at one time done by Indian machinery (Indian banking) and that is internal trade proper. After bringing it to the port, the purchase of it by the shipper and the export of it is foreign trade. Would you find any serious objection to this interpretation by us ?

Mr. McDougall: I think there can only be one interpretation of it. The whole handling might be envisaged as trade as a whole, not foreign and internal, but if you wanted, as a matter of convenience, to make a division of foreign trade and internal trade, you must make a division somewhere.

Dr. Jeidels: Mr. McDougall thinks that all goods exported are manufactured for export. I would not go so far as this.

Mr. Manu Subedar: Would not Mr. McDougall say that the financing of the seeds is also export ?

Mr. McDougall: No, that is carrying a logical conclusion to an absurdity.

Dr. Jeidels: I shall offer my own observation and my friends on this side of the table will correct me if I am wrong. Jute is a characteristic export article in this country, but only 20 per cent. are exported, the remaining 80 per cent. go to the mills. When it is grown, nobody knows whether it is for export trade or for inland manufacture.

Mr. Manu Subedar: With regard to the financing of foreign trade, you consider it as absolutely appropriate that foreign banks established in this country should do it and you further find that they are doing it very well. But would it be your opinion also that foreign banks should do the financing of internal trade and that it is very appropriate ?

Dr. Jeidels: There enters the essential difference between two points of view. From the point of view of the domestic banking institutions there may be objection against every extension of banking activity from immediate foreign trade finance to less immediate foreign trade finance. From the point of view of the country at large, we consider it an increase of banking facilities and therefore an advantage. From the point of view of Indian banks operating in the same place and trying to attract the same business into their own offices, it is a disadvantage. One has to weigh what is more important, the trade of the country or the banks, and with all sympathy to both sides, trade and Indian banks, one has to come to a decision. Our opinion is, that the trade interest is of greater importance for India at large.

Mr. Manu Subedar: You, therefore, understand the objection, but in your opinion the objection is more than outweighed by the advantage to the trade.

Dr. Jeidels: Yes.

Mr. Manu Subedar: What do you mean by advantage to the trade ?

Dr. Jeidels: It may be the merchant exclusively devoted to inland trade, it may be the distributing merchant for imported goods or it may be the collecting merchant for export goods and it may be industry, all those who can be customers of banks.

Mr. Manu Subedar: With regard to the adequacy of funds for financing foreign trade, are you satisfied that the present available resources of the foreign banks are adequate ?

Dr. Jeidels: Yes, quite adequate.

Mr. Manu Subedar: You are also satisfied that they are in excess of the need for foreign financing and they provide a field for internal banking with those resources.

Dr. Jeidels: I think so.

Mr. Manu Subedar: In your opinion, you consider it good on the whole for the trade.

Dr. Jeidels: For the country at large.

Mr. Manu Subedar: I would like to ask you whether in your opinion trade follows the establishment of banks or banks follow the establishment of trade.

Dr. Jeidels: You are certainly aware as much as I, that in answering a question of this kind, one does not do justice to all the facts. In some cases trade may follow banks and in some others banks may follow trade. I am more inclined to think that banks follow trade, but it is not quite correct.

Mr. Manu Subedar: With regard to Holland and England, your colleagues told us that these banks came through for the purpose of their own nationals. Do the banks in your opinion follow trade or do you think that both are true to some extent, and that the banks having established themselves in these countries enabled their nationals to form a nucleus of a bank.

Dr. Jeidels: They follow trade and then try to cultivate trade.

Mr. Manu Subedar: Having established, they enable further connections to be cultivated ?

Dr. Jeidels: Yes.

Mr. Manu Subedar: Are you aware of the percentage of Indian trade which is in Indian hands, either export or import ? Have you got any kind of estimate, reliable or unreliable, or have you made a guess ?

Dr. Jeidels: I suppose it is small.

Mr. Buckley: The Secretary has got figures which I think show that roughly 35 per cent. of exports and 65 per cent. of imports are in the hands of Indians. In the aggregate about 50 per cent.

Chairman: The figures are being typed and will be circulated.

Dr. Jeidels: The estimate would be about two-thirds foreign and one-third Indian in export trade and the other way round in import trade.

Mr. Manu Subedar: The statistics which have just been given may be somewhat doubtful in this sense, that an English firm registered and established in this country would naturally be regarded as an Indian firm, but I might mention that an estimate was prepared by the Indian Chamber of Commerce in Calcutta which was that of the total on both sides the Indian share was 15 per cent. only. There is therefore a very wide discrepancy. You and I are naturally anxious to have reliable statistics but both sets of statistics we have, show that the Indian share is not considerable. Taking the exports and imports together, the two-thirds and one-third give 50 per cent. to Indians, but the exports are larger and therefore it would actually be less than 50 per cent. It would be somewhere between 40 and 50 per cent. But talking broadly, would you have serious sympathy with the desire of Indians to have a much larger volume of this trade in their own hands ?

Dr. Jeidels: I do not know whether the experts have a joint opinion. I am very much in sympathy.

Mr. Manu Subedar: Please formulate a joint opinion, because it is a matter of great importance.

Dr. Jeidels: Perhaps I ought to say how it is regarded in other countries.

Mr. Manu Subedar: I should have certainly asked about the situation in your or in other countries and then I should have asked about your attitude.

Dr. Jeidels: Our memorandum says that " in every country banking is expected to assist in the development of trade as national institution".

Mr. Manu Subedar: It is necessary for the purposes of record as well as of discussion that we should go step by step. You have taken two or three steps together. Your answer would then be that it is a perfectly legitimate desire and you have every sympathy with the desire of Indians that they should have more of the share of this business in their own hands.

Dr. Jeidels: I am glad to admit it.

Mr. Manu Subedar: One of the difficulties which has been pointed out in Indians taking a larger share of this trade is the existence of foreign banks. It has been suggested that if there were Indian institutions or at least institutions manned by Indians, the Indian share would be more. What would you say to that ?

Dr. Jeidels: I differ there.

Mr. Manu Subedar: You have admitted that in your memorandum.

Dr. Jeidels: Quality and efficiency of banking is an instrument for increasing the national trade of the country.

Mr. Manu Subedar: You say that " there is a natural suspicion that foreign banks might tend to discriminate against national goods or national merchants." I shall take up that point later, but your view is that it is a perfectly natural expectation that if there were Indian banks or institutions, in the superior staff of which there were more Indians, the Indian share might tend to rise. Is that not so ?

Dr. Jeidels: I see possibilities of rise of the Indian share, the more so as I look forward to a rise in the volume of trade.

Mr. Manu Subedar: But that is your expectation in any case.

Dr. Jeidels: That is my expectation, if all energy is applied.

Mr. Manu Subedar: Take German exports for example: these German exports to India become Indian imports from Germany. Is that not so ?

Dr. Jeidels: Yes.

Mr. Manu Subedar: With regard to German exports, is it your experience that Indians come and buy their goods in Germany, or is it the other way, that Germans come and sell their goods in this country ?

Dr. Jeidels: It is different with raw material and finished goods.

Mr. Manu Subedar: You are, therefore, laying down an entirely different set of constitution for America, France, Germany, England, Belgium and Japan, countries which we want to approach to in our economic life, but for us it should be what is being done in China, Java, etc.

Dr. Jeidels: The rule may be different, but the tendency is the same in all countries.

Mr. Manu Subedar: Whatever we do is all being done by other people in this country. It is a very unfortunate phenomen on.

Dr. Jeidels: I would put less stress on the word 'unfortunate', but I would put more stress on the possibilities of change.

Mr. Manu Subedar : If it is a fortunate thing, nobody wants to change it. If it is a desirable thing, we would want to hang on to it.

Dr. Jeidels : I cannot agree that it is generally unfortunate. The trade of the country is very well served by foreign firms, yet there will be the tendency to increase the country's share in the trade and one merchandise after the other will be subject to the efforts of merchants and industrialists to increase the national share in trade.

Mr. Manu Subedar : So that any attempt in order to get a larger handling of the trade in the hands of the people of the country would be a proper attempt and it deserves encouragement on every side.

Dr. Jeidels : I think so.

Mr. Manu Subedar : The institutions are at present completely foreign in their constitution, in their working and in their habit. If an attempt was made to make them Indian, it would not be improper ?

Dr. Jeidels : I would ask whether that specific field is an instrument for trade or part of the trade. Let me give you an instance of one of the most important industries of my country. In German cotton mills you will find that 75 per cent. of the spinning machinery is English in spite of the high standard of engineering industry in Germany. Primary importance in the cotton industry is attached to good trade in cotton goods, and German machinery will only be used, if it does not put the cotton mills at a disadvantage in their trade ; the cultivation of German engineering would interfere with their principal business interest. One has to distinguish, what is instrument and what is object. The object is trade, the instrument is banking.

Chairman : Mr. Manu Subedar, I have given you much more than 20 minutes. It is a very interesting discourse, but we shall come back to you if we can find the time.

Dr. Hyder : I shall ask a few questions before I take up the memorandum. Since the War, is it a fact that you tried to increase the entrepot trade through Holland and you preferred this trade ?

Dr. Trip : Yes.

Dr. Hyder : Supposing a German bank has established itself in your country, your Central bank would not re-discount or give discount facilities to it ?

Dr. Trip : In Holland the Netherland Bank requires foreign banks to be established under the Dutch law if they are to get discount facilities.

Dr. Hyder : Dr. Jeidels, is it a fact that in your trade with Switzerland, you have found that Swiss banks, in order to further their national interests, insist upon insurance being effected with Swiss companies ?

Dr. Jeidels : The Swiss banks do not do much direct business with German trade. Trade between Germany and Switzerland has a Swiss side as well as a German side ; which side is the stronger and how much is handled through Swiss and how much through German banks, depends less on the banks, than on the two merchants and the commodity.

Dr. Hyder : That is how I would translate it. As the Dutch banks, so also the Swiss banks, prefer the financing of movement of goods between their country and the foreign countries, when there is another national interest, for example the making of insurance.

Dr. Jeidels : I suppose it is correct.

Dr. Hyder: Suppose you were sitting at a table like this and you as a witness were asked "You have been long in this business, tell us what are you going to do about it, how to minimise these incidental disadvantages which arise through a change which has been brought about in Germany after the war", what measures would you suggest?

Dr. Jeidels: One has first to find out which part of the German-Swiss trade is financed by Swiss and which by German banks. This depends on two factors; the cost of financing and the respective position of importer and exporter, whoever is stronger. With watches, one of the most important export articles of Switzerland, the exporter has to do the financing like everything else in his power which may facilitate his arduous trade. He finances in Switzerland and Swiss banks will probably prefer, if not insist on Swiss insurance. The German grain export trade to Switzerland is largely financed by German banks, and these, as far as I know, are quite satisfied with any kind of high class insurance.

Dr. Hyder: Supposing German banks were not able to finance the German grain trade and you had the Swiss banks operating in Germany and they insisted upon getting a share of the other advantages, what practical steps would you suggest?

Dr. Jeidels: I understand you wish to know how far banks impose conditions, in the course of their business, which are not in the direct scope of banking.

Dr. Hyder: What steps should be taken to get out of a mess like that?

Dr. Jeidels: The first thing to do is to establish national insurance companies. But let us return to the Swiss-German case. For the business of financing, a Swiss bank and a German bank are available. The Swiss bank offers finance, but you have to insist on the underlying goods being insured by a company prescribed by the Swiss bank. If I were the merchant I would go to the German bank and find out whether they insist on similar provisions.

Dr. Hyder: But if you have got no German banks? That is our difficulty.

Dr. Jeidels: But there is not only one Swiss bank, there are other Swiss banks, Dutch, English, American banks, and I would try my best to find one who will finance without interfering with my insurance arrangements. If the banker tries to impose such condition which is really outside financing, I would use the competition between banks to find one which leaves my business arrangements to me.

Dr. Hyder: And if they are all of the same kind?

Dr. Jeidels: I will submit, but this is too hypothetical.

Dr. Hyder: It is only a case of oriental resignation, it is not so hypothetical here.

Dr. Jeidels: If I were an Indian merchant, I would tell my banker "I appreciate that you wish to have an insurance company employed to which you are used; but if I can offer you a policy of an insurance company which I consider good and efficient and to which I, your customer, am used, you will, I trust, accept it." I would try to impress this view on my banker.

Dr. Hyder: It would be very interesting if you were to give us a brief resume in a few words as to how the German banks came into the international market and established the mark bills? Import trade or export trade, at which end did you begin?

Dr. Jeidels: We began at no end. We first brought down the rate of interest. As long as our rate of interest is higher, we can use our own currency only to a limited extent in foreign trade finance. If somebody wants to import cotton into Germany or to export potash from Germany, he has to find the cheapest finance; if he finances by Reichs mark acceptance of a German bank, he increases the cost of the goods; he will, therefore, use the cheapest foreign currency. The same has been done before the war; it is done to a much larger extent now, because the German rate of interest cannot compete. The foreign trade finance is mostly, done by German banks placing foreign bank acceptances at the disposal of their German customers.

Dr. Hyder: Foreign bank?

Dr. Jeidels: Yes.

Dr. Hyder: They would be the currency of the foreign banks?

Dr. Jeidels: Yes. Before the war you had these mark bills, and was there much discrimination in the London money market against the Mark bill?

Dr. Hyder: Let us exemplify by an industry, in the centre of international competition, the sugar industry, whose pre-war situation I well remember. Sugar was subsidised by Governments to be dumped on the world markets, and required the cheapest possible finance. German sugar exports were financed before the war in one of the cheap markets, generally London. Please come to the actual steps that were taken by the German banks?

Dr. Jeidels: I did not mention the question of using the rupee instead of the pound or dollar in Indian foreign trade finance, because it is so uncontestably a matter of the rate of interest that we did not wish to discuss it in the memorandum.

Dr. Hyder: Am I wrong in assuming that the first thing that the German banks did was to establish branches abroad?

Dr. Jeidels: Yes.

Dr. Hyder: The second thing they did was?

Dr. Jeidels: To close them again.

Dr. Hyder: From 1870 up to 1914 they were opened and mark bills were in abundance and that the foreign exchange as well as the trade between the two countries was gradually and step by step passing over.

Dr. Jeidels: In conformity with the rate of interest in Germany. That is essential.

Dr. Hyder: Now, I come to your paper which you have submitted. I have got a few questions. I am referring to criticisms of efficiency and national policy. Can you suggest any answer by means of which we can reconcile these two? You suggest one remedy which is co-operation between two countries. If you can give us some remedy, short of discriminating legislation and other troubles, we shall be very much obliged?

Dr. Jeidels: What we suggest in our paper is to use the competition of foreign exchange banks to the fullest extent.

Dr. Hyder: How about national policy?

Dr. Jeidels: I have always to return to my distinction of instrument and object.

Dr. Hyder: I can quite understand the distinction. We feel that something should be done in this matter of national policy which is not very much at variance with efficiency.

Dr. Jeidels: Development of the Indian banks is one thing. I can say we all regret it that the Imperial Bank is not entitled to do foreign exchange business in the same way as the exchange banks. But you know the reason.

Dr. Hyder: It is only for a short time.

Dr. Jeidels: We know the difficulties about the establishment of a Reserve Bank, but nevertheless feel that one ought to have the Reserve Bank as soon as possible.

Dr. Hyder: Even then, it would not create a new heaven, because the existing banks will be there.

Dr. Jeidels: But you would have an important and strong institution in the foreign exchange business, and the foreign exchange banks will know that they have a strong Indian competitor.

Dr. Hyder: If more such banks were put into this line, the better it would be for the country. I am only taking your remedy. I agree, but there must be also some competition from the Indian side.

Dr. Jeidels: It is true. The observer is somewhat struck when he sees a very large Indian bank, as strong as any of other bank, not being able to do foreign exchange business. You know why it does not and know when it will do it. I think the Imperial Bank will be an extremely valuable competitor from the point of view of Indian trade, because the Imperial Bank goes much deeper into the distribution of imported goods and into the collection of export goods than the exchange banks.

Dr. Hyder: Supposing by some kind of calculation we found out that for the first few years of the first decade the cost of establishing in the national interests branches not only of Imperial Bank but of other joint stock banks in different countries was Rs. 1 lakh, do you think it would be a bad use of State aid if the State advanced so much money for a limited time in order to set these young children on their legs in foreign countries. What I say applies to other banks than the Imperial Bank also. If the work was divided, say that the Peoples Bank should go to the East, Imperial Bank to the West, the Central Bank to the Near East and so on, to establish connections, do you think it would be a bad use of State aid ?

Dr. Jeidels: Subsidy, if I were the bank, I would not like to accept, the more so as I have no doubt that the Imperial Bank will build up the organization very quickly. Mentioning the Imperial Bank, does not mean to exclude other large banks. If there are in a country two classes of banks, national banks and foreign banks, my business sense would always advise me to satisfy the national point of view by helping the domestic business, but not by harming the foreign banks.

Dr. Hyder: Here it is that the interest of the individual comes directly into conflict with the interests of the nation. I as an individual would prefer at all times my own interest, but the national interest is composed of the interest of all the individuals and therefore it is, that State aid comes. The flesh is after all weak. I would naturally say I get a better rate from the other bank and therefore I would do business with it.

Dr. Jeidels: In my opinion when released of the restrictions, the Imperial Bank will be the best agency to educate Indian foreign exchange business, and particularly if it establishes a good international organization which will help Indian trade.

Dr. Trip: It would be necessary for the Imperial Bank to establish branches.

Dr. Jeidels: It is not necessary to establish branches. As a matter of fact from a practical point of view I would prefer close, intimate and valuable connections. It is merely a practical and business consideration .

Mr. Devadhar: Supposing that national policy wants more banking facilities, would you still stress on the point of efficiency ?

Dr. Jeidels: Yes, I would stress the point of efficiency and would give it the preference over the national point of view.

Mr. Devadhar: Under (*c*) you have mentioned specialised financing of foreign trade. It may be to the neglect of Indian trade.

Dr. Jeidels: Specialised financing may lead to the neglect of inland trade. Inland trade is ultimately the source of foreign trade ; it collects the goods for export and distributes the goods of import.

Mr. Devadhar: Are you against all available resources being devoted to foreign trade at the cost of inland trade ?

Dr. Jeidels: No, foreign trade ought to be linked up closely with inland trade.

Mr. Devadhar: All the available resources should not be sacrificed to foreign trade only ?

Dr. Jeidels: No, certainly not.

Mr. Devadhar: Would you in the interest of the country leave the collection of export and distribution of import goods to co-operative organization.

Dr. Jeidels: I do not see the meaning of the question.

Mr. Devadhar: The difference is that there will be one more middleman, and if that one intermediary is removed, there will be a saving in the rate of interest ?

Dr. Jeidels: Whether an element, which increases the cost of goods and therefore hampers competition in world markets, should be eliminated is a question of foreign trade generally, not of foreign trade finance.

Mr. Devadhar: You think it would stop automatically ?

Dr. Jeidels: It is not a matter of foreign trade finance. In marketing also, the question of efficiency ranks first of all. If goods are available at cheaper price, the chance of exporting them improves.

Mr. Devadhar: Am I right in thinking that you advocate, irrespective of foreign or indigenous institutions, good and efficient working in the interests of the country, because they have paved the way for Indian business.

Dr. Jeidels: They pave the way, as you expressed it perfectly ; they are instruments to develop trade.

Ch. Mukhtar Singh: Am I right in assuming that efficiency is always acquired by practice and experience ?

Dr. Jeidels: Not only by practice and experience, but also by money.

Ch. Mukhtar Singh: If the money is there, even then practice and experience would be necessary ?

Dr. Jeidels: Practice and experience can be bought.

Ch. Mukhtar Singh: If a new institution starts its life, it may not have any practice, it may not have any experience ; still it can be efficient ?

Dr. Jeidels: It can become efficient.

Ch. Mukhtar Singh: Without paying the price for the experience and practice ?

Dr. Jeidels: It will have to pay a price for it, but it does not need to be an excessive price.

Ch. Mukhtar Singh: If an Indian bank is started today, Indians would have no previous experience or practice in that line. Naturally their working would be less efficient than foreign banks. But if the Indian institution goes on for some time, it will become equally efficient ?

Dr. Jeidels: I think so.

Ch. Mukhtar Singh: If it is correct, then till the Indian institution gets experience and practice it will have to lose money naturally, or the clients will have to pay more ?

Dr. Jeidels: The alternative exists in theory, but not in practice, because the customer, the trader will not pay, but go to another bank. The banker will have to pay.

Ch. Mukhtar Singh: If it is agreed that the banker will have to pay, will it not be better for the country in order to get efficient foreign exchange bankers in this country to pay the price for it, that the State should pay for it ?

Dr. Jeidels: You wish the State to pay for the initial expenses of the institution to put it on a level with the others ? Not only Government, which has to pay according to this plan, ought to be consulted, but also the interests of the other Indian banks. You do not have to consult the interests of the foreign banks, but certainly the interests of the Indian banks, before putting Government subsidy in competition aginst them. The Indian joint stock banks will consider such Government competition an outrage.

Ch. Mukhtar Singh: You mean to say that if the Indian bankers and the tax-payer agree, then there is no harm in doing it ? I have not been able to understand what is meant by efficiently . Does it mean doing a thing cheaply ? If there are a larger number of brokers in the exchange field, naturally things would be done cheaper.

Dr. Jeidels: I cannot tell you, I have not studied the special question. Generally, brokers do a very useful job.

Ch. Mukhtar Singh: The broker is a very necessary middle man ?
Dr. Jeidels: I think so.

Ch. Mukhtar Singh: If there are more middle men there will be more competition, and naturally the charges for brokerage will be much less.

Dr. Jeidels: I agree with my neighbour, Mr. Cassels, who tells me that efficient service does not only mean cheap, but also good service.

Ch. Mukhtar Singh: You have said so far it must be cheap. Let us take the cheap side first. Don't you consider that if there is a larger number of brokers in the country naturally the advice will be cheaper ?

Dr. Jeidels: Mr. Chairman, I have not given any thought to this point.

Ch. Mukhtar Singh: I put it to you like this. Suppose all these exchange bankers had decided through their association that no Indian broker should be allowed to work. Will that not mean paying a higher price for the working of what you would call efficiency ?

Dr. Jeidels: It may mean a monopoly to one class of brokers. On general grounds I would not advocate it.

Ch. Mukhtar Singh: And if they have done it, then what steps should be taken that it should not be done ?

Dr. Jeidels: I do not know the question sufficiently and can only give you my general impression, that I am not in favour of a privilege to the exclusion of others.

Ch. Mukhtar Singh: You can tell if you read the Exchange Banks' Association's oral evidence.

Chairman: We have got Dr. Jeidels' general views on the subject.

Ch. Mukhtar Singh: If a country develops industrially, the result would be that the export of raw materials from that country to other countries will become less and less ?

Dr. Jeidels: Quite possible.

Ch. Mukhtar Singh: And the export of finished goods would be more and more ?

Dr. Jeidels: If the industry develops on the basis of efficiency, yes.

Ch. Mukhtar Singh: And if that finished article is to be sold in other markets, it will be in the interests of the nationals of that country that the work should be done by its own nationals rather than by foreigners who are interested in that very article which is sold by their country ?

Dr. Jeidels: It does not apply to the export of the finished goods which you mentioned.

Ch. Mukhtar Singh: I will give you a concrete example though it may not be correct. Germany sells finished textile articles in this country. Suppose we take to the manufacture of those articles and we want to export them from this country to Germany and there is no other foreign exchange bank in this country than a German firm. Would that firm help us ?

Dr. Jeidels: I think I must correct your hypothetical case. It is the merchant, not a foreign exchange bank, with whom you should argue. That merchant has so far imported goods from Germany which you now manufacture, so that you can dispense with imports and may even be in a position to export, and you need an Indian merchant to export those goods.

Ch. Mukhtar Singh: I am speaking of the foreign exchange bank.

Dr. Jeidels: The banks have nothing to do with it.

Mr. Ramdas Pantulu: I understand Mr. Mukhtar Singh to mean that if India wanted to export manufatured textile goods from this country, would the British exchange banks who are interested in the textile industry give facilities for the export of those textile goods ?

Dr. Jeidels: I must object to the discussion on these lines. These banks are not interested in English trade ; they are interested in trade between India and other countries. Excuse my being obstinate and bringing the merchant in again. You must find a merchant to export those goods, Mr. Mukhtar

Singh. He is the principla instrument, and if you have found the merchant to export the goods you will have no difficulty to find the banker.

Ch. Mukhtar Singh: That is not the point at all. My point is simply this. If there were only German banks or German banks which are interested in that very industry, would they in any way help or give facilities to the finished goods of this country?

Dr. Jeidels: Why take a hypothetical case which does not exist; not all foreign banks in India are English banks.

Ch. Mukhtar Singh: I have put that question generally.

Dr. Jeidels: But your general question can only mean, that when you have suitable export goods and a proper merchant to export them, you fear that the merchant will not find a bank to finance him.

Chairman: As I have understood Mr. Mukhtar Singh's point it is this Supposing in India there is only one class of foreign exchange banks, namely, German exchange banks, and Germany was interested in exporting to India her cotton goods. Will not that fact have an effect on the German exchange bank which, according to Mr. Mukhtar Singh, has the monopoly of the exchange business between India and Germany. Will that institution, which has got this monopoly, not be interested in preventing exports of cotton piece-goods from India to Germany, because that will interfere with Germany's export to India?

Mr. Ramdas Pantulu: Mr. Chairman, with your permission I shall read a sentence from the book recommended by Dr. Jeidels. It runs: "In both respects the German banks assisted the exporting merchants to be distinctly more accommodating than their chief competitors".

Dr. Jeidels: I do not know what the sentence means in this connection. I have recommended the book but I have not written it; so please don't take me by the author's words. Answering your question. Mr. Chairman, I cannot imagine that a bank goes so much outside of its business as to influence the flow of export and import. A bank is not a Government institution, it is a business institution, and finances available business, whether it is an import or an export business, whether it is agreeable to the country of the bank's origin or not.

Ch. Mukhtar Singh: Do I understand then that a bank is such a soulless machine that partiotism does not play any part in it?

Dr. Jeidels: It is.

Ch. Mukhtar Singh: I am putting another question under the same question to explain my position. In India there are European companies which are manufacturing tea; there are Indian factories which are manufacturing tea. The foreign exchange bank's association has made it a rule that there should be only four European brokers who will deal in tea, and the result, as the Indian Tea Planters' Association has pointed out to us, is this that they are forced to sell not at a competitive rate but at the rate at which these brokers will buy.

Dr. Jeidels: There I am again confronted with a special case which I cannot know. I think, our memorandum says quite clearly that no discrimination against Indian trade ought to be made.

Ch. Mukhtar Singh: If they do it, what is the remedy? That is the point.

Dr. Jeidels: The remedy lies with the merchant; he will find remedies. You have in this country 16 exchange banks, and they are not all English banks; all are very eager for business.

Ch. Mukhtar Singh: There is no time for me, but I have got the evidence from which I just gave you a brief account, that this is the impression of the Indian Tea Planters' Associaion and this they have given us in their oral evidence.

Dr. Jeidels: I cannot understand why the Indian Tea Planters' Association does not try another policy.

Ch. Mukhtar Singh: Because all the foreign banks have agreed through their Association that they will not allow anybody else to do this.

Chairman: Mr. Buckley will be able to say something on this point.

Mr. Buckley: You are talking about the four tea brokers in Calcutta; they have nothing whatever to do with the foreign exchange banks.

Ch. Mukhtar Singh: I will read the evidence.

Chairman: That does not bring in the banks there. I remember that evidence very well. It is the question of financing these tea companies which arises in that connection, but there is no question of the foreign trade itself.

Ch. Mukhtar Singh: If you will kindly read this evidence along with the evidence of the exchange banks' association where they have admitted that the number of brokers in Calcutta is 32.

Chairman: The brokers of the exchange banks are quite different from these tea brokers. A little while ago you were referring to the brokers of the exchange banks and, therefore, at that stage I had nothing to say, and Dr. Jeidels answered that part of your question. When you bring in these tea brokers, they are quite a different organization altogether.

Ch. Mukhtar Singh: They have nothing to do with the exchange banks?

Mr. Buckley: Nothing whatever.

Ch. Mukhtar Singh: The other point that has been pointed out to us is that Indian importer loses both ways on account of the want of facilities for D. A. bills. Would you call that efficiency?

Dr. Jeidels: This criticism was also mentioned to me by a prominent merchant in India and I tried to find out what his arrangements with the merchant on the other side are. Trade has to organize itself so that it does not entirely depend on the importer or exporter abroad. For instance, tea or jute has to be sold. If the Indian firm has its organization only on this side of the water, it is at a disadvantage compared with an importer, say in England or in Germany, who has his organization here too. My logical and quite obvious advice was to organize his trade so that he is represented in the customer's country as well. It is a matter for the merchant, and indeed a great field for Indian firms to develop and extend their business by organizing both sides of the business.

Mr. Ramdas Pantulu: The complaint made by businessmen to this Committee is that when an exporter sells goods to a man in England, the bill is made at three months' sight, D. A. and when goods are imported to this country they are at 60 days' sight, D. P. After all the interest has to be adjusted, but the interest has to be taken into consideration in both cases at this end and we have to adjust it here. It is a great disadvantage from the Indian business point of view to take interest into consideration and make an adjustment in both cases in India and not elsewhere.

Dr. Jeidels: I consider it a matter of organization of the trade, not of banking terms.

Mr. Ramdas Pantulu: Of course we have had a very long discussion on the question of the national interests *versus* efficiency on which my friends Mr. Manu Subedar and Dr. Hyder have put very many questions to you and you have very relevantly drawn the disintinction between the instrument and the development itself.

Chairman: May I make one suggestion ? Perhaps we might have a general discussion; let Mr. Subedar when he gets his second instalment, develop the point and Dr. Hyder and you, Mr. Pantulu can also come in at this stage. Would that suit you, Mr. Subedar ?

Mr. Manu Subedar: Yes.

Mr. Ramdas Pantulu: When you speak of the instrument what was passing in my mind was this, that in this country according to a statement which I have read, the money necessary for carrying on the foreign trade is supplied by the Indians. Therefore, I think all the parts of the instrument are really Indian except the handle which operates it. Why I say this is this. In the summary supplied to you you will find an extract from a speech of the Chairman of the Lloyd's Bank who has, I think, said that the deposits received in India by the exchange banks are more than ample to finance the foreign trade of India. That is quoted there—a very specific statement—and the Indian Chamber of Commerce in their memorandum have substantially corroborated that statement with reference to the enquiries made by them. No doubt Mr. Buckley yesterday gave some figures to show that the exchange banks import some capital from their own countries and Mr. Subedar has said that these figures do not lend themselves to accurate inferences. Therefore, for the present, we will take it that the speech of the Chairman of Lloyd's Bank and the calculation made by the Indian Chambers do stand because the consolidated figures do not lend themselves to any accurate inferences. If that were so, then your speaking of instrument would strike us as not quite to the point. Therefore, it is, that we ask you these questions about the voice which India should have in determining the operaton of these banks.

Dr. Jeidels: You say that the country at large should have a voice about the policy of those banks. But has any country in the world a voice in regard to the technical handling of its banks? What do you mean by voice ?

Mr. Ramdas Pantulu: To subject them to certain restrictions which would promote national interests.

Dr. Jeidels: If you want to subject the instrument to restrictions you make that instrument less good, this is our theory. You make the instrument less good the more you interfere; if any measure which you take interferes with the efficiency, with the free working and free handling of the instrument, then I think you do harm to the country at large. All our arguments, our entire statement can only be understood if the theory of the instrument is accepted.

Mr. Ramdas Pantulu: I am accepting it for the present moment. Why I am asking this question is this. Various suggestions have been made to this Committee as to how we should control the operations of the foreign exchange banks. In the discussion we had between ourselves we arrived at the conclusion that we should put some restraint which did not interefere with efficiency. If some recommendation were put forward that had a tendency to interfere with efficiency I would say: "I cannot recommend it; I cannot be a subscriber to that recommendation". But if some other restraint could be adopted which did not reduce efficiency but tended to promote the national interests, would you have any objection to such a restraint being placed ?

Dr. Jeidels: If the efficiency remains in tact nothing is to be said against anything.

Mr. Ramdas Pantulu: We will adjust our recommendations in the light of the general proposition that so long as we do not reduce efficiency there is no objection. I have only to ask you one question on a point which is more or less connected with D. A. and D. P. bills. Many witnesses have said that if the rupee bills are introduced it would greatly promote the interests of Indian trade and develop a market in that connection. You gave certain answers to Dr. Hyder. I will only read to you again one sentence from the book you recommended with regard to what Germany did. It reads:—

> "We have left to the last, consideration of the change attempted, and in part effected, in the way of substituting the mark for the pound sterling as the basis of trade between Germany and overseas countries. Actually this was one of the first objects which the German banks set before themselves in this field. From the standpoint of the German banks, the predominance of sterling was resented because it helped to maintain the leading position of the English banks and enabled these to earn coveted profits."

Then you see this change was discussed in relation to the benefits which would go to the merchants and the banks, and the book goes on to say:—

> "It can hardly be doubted that this credit policy contributed to the growth of the German export trade, and, judged on the whole, as a policy applied to the trade of a country which came late into the world's markets, it seems to have justified itself by its results."

Chairman: I take it you will deal with the rupee bill market in your separate paper on the subject.

Dr. Trip: It can doubtless be dealt with in connection with money market but it is not an essential part of the money market problem of this country.

Chairman: The paper has to deal not only with money market, but with money and bill markets.

Dr. Trip: But specially with regard to the internal trade and internal bill market. It is, of course, a fact that in India there is no highly developed internal bill market. The foreign bill market is quite efficient in this country, in my opinion. It is only a question of interest. You discuss money market and inland bill market. I have no objection.

Dr. Jeidels: I think the situation is quite simple; it is only a question of the cheaper interest rate.

Chairman: This is not the proper place, in my opinion, for discussing this.

Mr. Ramdas Pantulu: With regard to the employment of Indians in the exchange banks you recommend the employment of as large a proportion of Indians as is compatible with business principles and so on. This is a matter on which this Committee will perhaps have to say something. One of the difficulties which Indians experience is the want of touch between the European banks and the Indian customers. Don't you think that if in the higher grades of the exchange banks some responsible Indians are appointed, I am not speaking of any particular appointment such as Agent, it will help to bring these banks and the Indian commercial community into touch; and that an

attempt should be made by these banks to employ Indians under a scheme like that of the Imperial Bank of taking apprentices and training them and if necessary sending them abroad also for international training. We are told that there are many difficulties in the way of Indians getting training. Having regard to this important aspect of touch, apart from cheapness and other considerations such as sentiment, will it not be in the interests of the banks themselves and of the country in general, if Indians are taken into positions of responsibility in the banks.

Dr. Jeidels: I have full sympathy with this view.

Seth Haji Abdulla Haroon: You say that there is in India keen competition between the exchange banks. There is no competition in India. At any rate, in Karachi where I am doing business, there is no competition. A friend of mine wanted to retire a bill from a bank by means of a demand draft from another bank which he got cheaper. A bank's quotation might be $\frac{13}{16}$ and a demand draft from another bank might be had at $\frac{14}{16}$ or so. They did not take the demand draft in payment.

Dr. Jeidels: It is interesting to hear that at Karachi there is not much competition, the more banks, the greater the competition and the better the terms for the customer.

Seth Haji Abdulla Haroon: I do not know about Calcutta and Bombay but I am told that there also they are refusing to take draft bills on other countries in payment of their demand drafts.

Dr. Jeidels: I have discussed the matter with a countryman of mine. He has no bank of his nationality here, does business in one of the most important trades of this country, in which he competes with firms of three different nationalities, whose banks are represented here. He told me that the competition between the banks gives him every facility required.

Chairman: Touching that conversation and the information supplied to you by the Haji Sahib based on his own experience, would not that make you feel apprehensive that the treatment meted out to Indian customers is not that meted out to non-Indian customers.

Dr. Jeidels: I won't infer this from the Karachi case mentioned; the case only shows that in certain places the Indian customer does not feel quite satisfied with foreign exchange banks.

Chairman: Not only in Karachi. Haji Sahib went on to say that he has heard that the same is the case in Calcutta and Bombay. It is quite possible that it was brought out in the evidence before the Committee that the same position may arise in places like Calcutta and Bombay.

Seth Haji Abdulla Haroon: I have just learnt from Mr. Buckley that they are accepting D. D., only if a commission of $\frac{1}{4}$ per cent. is paid.

Chairman: You are referring to a particular aspect of it which was discussed as a matter of fact with the exchange banks—*vide* paragraph 23 of the Secretary's memorandum. You are referring to drafts only.

Dr. Jeidels: Karachi is not as well provided with banking facilities as Bombay or Calcutta, and it is the nature of banks as of other business to hold out for better terms where competition is not so strong; I do not think there is more behind the case mentioned by the Haji Sahib. I attach the greatest value to the broadest possible competition in the field of banking and feel satisfied that in this country there is as much bank competition as one can desire.

Seth Haji Abdulla Haroon : I can give another example of absence of competition. In connection with the rate of exchange, exchange banks meet daily and fix rates for retiring drafts and for foreign quotations. If they fix a B/C rate no bank can quote half an anna less.

Dr. Jeidels : Do you think if there were only Indian banks the position would be different ?

Seth Haji Abdulla Haroon : I only want to put before you what I know is the case in practice. My point is that at present there is no free competition.

Chairman : Mr. Buckley will kindly confirm whether these rates are everywhere fixed by the Exchange Bankers' Association.

Mr. Buckley : We have nothing to hide. With regard to Haji Sahib's statement, ' there is no competition , the banks meet together in an association and fix rates ', that boldly made may give a wrong impression. I must explain that in every part of India where the exchange banks have an association, they agree from day to day on what is called the B/C rate, that is to say, the rate at which bills for collection falling due on that particular day in that place should be retired. The rate is usually fixed at 1/32nd under the open market selling rate. The reason for this is that in case there is weakness in exchange it is a protection to banks to the extent of 1/32nd. Secondly, it prevents, small traders coming to one bank and saying, ' You quote so and so, and your competitor quotes another rate ', and so on. The number of bills which each bank retires each day at the B/C rate is extremely small. A merchant who decides to pay his bill on the following day can make a contract with a broker in the open market the previous day at the full market rate on which the bank has to pay brokerage. Very small business goes through in this way. That is the only agreement in regard to rates which the exchange banks have. All other rates are competitive.

With regard to the case of Haji Sahib's friend who could not pay his bill by means of another bank's draft, exchange banks follow a rule that bills must be paid by their own drafts. If they are paid by drafts of another bank which they will accept, there is a commission to be paid of $\frac{1}{4}$ per cent. The merchant can go to another bank and buy exchange at a better rate. He is welcome to do so. But the bank which handles the business is entitled to $\frac{1}{4}$ per cent. commission. There is nothing against a bank accepting another bank's draft, but there is a penalty in the form of this commission.

On T. T. drafts there is no commission at all. Haji Sahib tells me that in Karachi T. T.'s also are charged at $\frac{1}{4}$ per cent. I accept his statement, and if it is so, all I can say is this. The Chairman knows that all exchange banks are at the present time bringing their rules into unison at various ports because when the exchange banks' representatives were before the Committee it was pointed out to them that there was one rule in Bombay, another in Calcutta, and there was really no reason why there should be a difference for the same kind of business.

Chairman : Are the rules same for Indians as well as non-Indians ?

Mr. Buckley : There is absolutely no difference.

Chairman : English businessmen will be under the same disability to which the Haji Sahib referred.

Mr. Buckley : Yes. In Calcutta I remember a European firm making a lot of trouble about a draft which I retired at the B/C rate of the day. They said they wanted the market rate. There is no difference made with anybody, everybody knows the rule which is never broken.

Seth Haji Abdulla Haroon: My friend says that apparently the number of Indian employees with the foreign banks is increasing. But I find that up till now Indians have not been appointed to responsible posts, and I think the experts will admit it. In my opinion it is unnatural to expect the foreign banks to employ Indians unless Government make some laws that Indians should be taken by these banks. Are you in favour of it or not ?

Dr. Jeidels: I have expressed full sympathy for a broader employment of Indians.

Chairman: Perhaps this matter might be more profitably discussed in connection with licensing.

Seth Haji Abdulla Haroon: I want to draw attention to the fact that in this country, especially in Karachi, exchange banks do not allow Indian brokers to fix rates. That point was mentioned by Chaudhri Mukhtar Singh.

Dr. Jeidels: I am against every monopoly.

Seth Haji Abdulla Haroon: You are in favour of legislation wherever there is monopoly.

Dr. Jeidels: Legislation against a single monopoly is quite unusual and very difficult. I suppose there are other ways than legislation by which such monopolies can be removed.

Chairman: It is to my mind licensing, and it can be discussed with licensing.

Lala Harkishen Lal: You say—"The experts cannot recommend those measures which have been suggested to the Banking Enquiry Committee about regulation of banking with special regard to the exchange banks". I shall not discuss all those suggestions individually, but I would remark that the witnesses who made those suggestions had something in view and they thought their object could be achieved by one or more of the methods enumerated here from 1 to 7. You rule out those. Now, this Committee in writing its report cannot say that the objective was foolish or just madness. That would not be acceptable to anybody. Briefly the objective is that India wants now to have a look in as regards her foreign trade in all its aspects, banking, buying and selling, shipping, insurance and so on. Further, the argument has been put forward in another connection that because India neglected her opportunities for all these years, vested interests have now been set up and those vested interests are not to be divested. Well those are the two objectives which Indians have in mind, and, in accordance with their experience, they have put forward suggestions to attain those objects. You have ruled out all those suggestions. Would you kindly suggest other measures ?

Dr. Jeidels: I think you have stated the position perfectly. I only want to correct your statement that the objective may be considered foolish. That certainly it is not. The objective is very worth considering, and we know how much it is at the heart of the people of this country. But we are, on thorough consideration, convinced that it is not as important an objective as is the economic development of the country ; we believe this can be better attained if you leave those suggestions alone. As regards getting a look in the foreign trade, the exclusion has created the feeling of a hidden mystery ; but it is here, as in other cases, the mystery disappears at close inspection. We appreciate the uncomfortable feeling that a certain business, the financing of foreign trade, is done almost exclusively by foreign banks. The best way to remove your apprehension and the mystery, seems to me to have Indian banks do this mysterious business also. It is one more reason for us to seriously

advocate that the Imperial Bank should be released from the present restrictions by establishing a Reserve Bank and making the Imperial Bank a joint stock bank. This seems to me the most effective step in the direction of your first objective.

As regards the vested interests, I do not see where the difference lies as to the vested interests between 10 years ago or now or 10 years hence. By keeping that instrument—a very excellent instrument in my opinion—and by using it, I do not see how you create vested interests. There I do not follow you.

Lala Krishen Lal: That is not my own statement. I have given you, so to speak, an inference drawn from the collective wisdom or impression of the people.

Dr. Jeidels: To attain a valuable object one has sometimes to sacrifice sentiment, and we think that we ought to state quite frankly our opinion that in this matter sentiment ought to make a sacrifice, which a perfect instrument for foreign trade finance deserves. I cannot repeat too often—and my conviction is not influenced by any connection or interest—that India enjoys the possession of a perfect instrument for the development of her economic resources.

Lala Harkishen Lal: You have suggested two things. One is that the Imperial Bank might make up the deficiency and meet the desires of the people. That is a positive suggestion. But, of course, that does not depend upon the recommendation of this Committee; it will depend upon the powers which control the Imperial Bank, and if they do not fancy the idea it would be difficult to arrange. But I would suggest that the Imperial Bank cannot be made the scapegoat for all our requirements. If we want industrial finance, we are referred to the Imperial Bank; if we want exchange banking, we are referred to the Imperial Bank; and if we are faced with banking difficulties, not facilities, we are referred to the Imperial Bank. Now, my reading of the position is this. The Imperial Bank has no doubt the balances of Government, the banks, the Indian States, big merchants, landlords and so on. But in spite of all those balances the Imperial Bank is for months and months in debt to the Currency Office, every year for several years past. And sometimes when it is so in debt we read also that the Government balances are not intact. Now as a banker who has put large reserves of my bank in Government paper, I sometimes wonder if in a crisis if a demand came the Imperial Bank would be able to meet the demand against Government paper of all banks. I am putting it from the banker's point of view. In such an emergency, with the exception of the currency, Government has no resources, except in so far as it may borrow in foreign countries. They may themselves have very large balances in cash, but the Imperial Bank does not keep them intact. That being the position would you advise the Imperial Bank to turn into other fields?

Dr. Jeidels: I think Lala Harkishen Lal has not put our various recommendations as to the Imperial Bank quite correctly. The Imperial Bank at present is the Government bank, it is the bankers' bank, a commercial bank and a real up-country bank, with 200 branches. Lala Harkishen Lal criticises that we suggest the addition of more and extensive functions, by asking the bank to be further more an industrial bank on the European or American model and a foreign exchange bank. I admit that there lies a certain overburdening of the Imperial Bank in such propositions, but it is a strong institution and has to undergo changes when the Reserve Bank is established, and I therefore think our programme is not excessive.

Chairman: If I may intervene, it is not the business of the Bank to which the Lalaji refers but the resources of the Bank.

Dr. Jeidels: With new activities, the resources might become too small in the future even if they suffice to-day. In any case from the point of view of the Bank's resources I have no apprehensions. On the other hand, what can you do to strengthen Indian banking? Is it really advisable to build up new organisations for all those new purposes? Can you do it? There is a limit to the resources of the Imperial Bank but there is also a limit to the resources of India, but Lala Harkishen Lal's arguments show me again the necessity for the country to make full use of the existing banking facilities. It is a further argument not to dispense with banking facilities even if sentiment, natural sentiment, is against it. So, starting from different points, we arrive at the same result.

In the memorandum we draw your attention to the possibility of building up a system of foreign connections; it serves to draw the veil from the mystery. There are other joint stock banks in the country, apart from the Imperial Bank, who could and, I may say, ought to develop it. It is not very expensive and furnishes valuable service to Indian foreign trade.

Lala Harkishen Lal: In connection with industrial banking you have stated that if the resources of the country are not adequate, foreign capital may be brought in to finance the foreign trade of India, and you think there should be no prejudice against that.

Dr. Jeidels: Yes.

Lala Harkishen Lal: I put it to you the other day that Government financing in this country is very defective in many ways; I will not go into that. But you know that Government obtains its funds through well known channels, *viz.*, treasury bills, postal certificates and so on. That is all part of the capital or savings of the country which are now ear-marked for Government use. Aside from the fact that the Government is a spendthrift or not, don't you think the Government should release some of these resources and go for the balance of its needs to foreign markets, rather than compel the commercial man to go to the foreign markets for his needs. Would not this be better? Perhaps Government could get money cheaper abroad. If they were not so charitable in regard to the terms which they offer, they could get it cheaper than joint stock banks or industrialists could get it.

Dr. Jeidels: Requirements of Government create a comparative scarcity in satisfying other economic purposes; India is not the only country where one has this complaint. Savings deposits are used exclusively for Government purposes and not for special economic development. But that is again a state of affairs which you have to accept as existing and which probably the Banking Committee cannot change. The fact remains that it is not possible to find the money for all kinds of new institutions. It is one more reason for me to favour the use of instruments available if they exist and if they are good, and even if they are foreign.

Lala Harkishen Lal: You have made one remark, that when the Reserve Bank comes along that will provide for all the ills of the country. Well, the Reserve Bank will have only three sources of capital, the peoples' reserves, other banks' reserves and currency. Do you suggest that the Reserve Bank will be able to remove our economic ills through capital reserves or also bring in currency?

Dr. Jeidels: The Reserve Bank, just as the Imperial Bank, cannot perform miracles. But the Reserve Bank will indeed, I think, fill out a few holes in the general structure. It will improve facilities in various ways, but it will not increase the resources.

Lala Harkishen Lal: I have argued before you the position of the Government and the Imperial Bank from the point of view of reserves. Now I am referring to the Reserve Bank. The capital of the Reserve Bank would be drawn from the capital of the country, whether through Government, the States or other banks, and the reserves also would come out of the reserves of the other banks. Those two factors, therefore, have to be written out so far as reserves are concerned. The only reserve remaining is the currency. I want your opinion whether, for the objective we have in view, the currency should be drawn upon or not ?

Dr. Jeidels: No.

Lala Harkishen Lal: That is your view. Now there is some talk in England and elsewhere that currency should not depend on gold but on bills. What is your opinion ?

Dr. Jeidels: Gold is the medium and to replace gold by bills requires a great deal of daring, which I would not have.

Lala Harkishen Lal: Then it means that the Reserve Bank, whatever its merits or demerits, will not in itself add to the resources or banking facilities of the country ?

Dr. Jeidels: That is not correct in regard to banking facilities, but it will not add to the resources.

Chairman: Except by increasing the velocity of circulation.

Lala Harkishen Lal: Velocity always increases if gravitation alone works. But that means a downwards movement. For velocity to increase in an upward direction you want some external motive power to make it move upward. How would the economic velocity increase through a resourceless Reserve Bank ?

Dr. Jeidels: Reserves in my opinion can only be increased by the development of trade, by prosperous development. That is not an affair of one year or one month. It must be increased gradually over a period of time.

Lala Harkishen Lal: Some day will come when your own resources would be plentiful.

Dr. Jeidels: In the meantime use the foreign instrument. India is using a great deal of foreign capital and there is no reason why it should not continue on the same lines.

Lala Harkishen Lal: I am asking the means to be adopted by which more foreign capital can be drawn in. There are two suggestions already made. One is that Government should do it. The other suggestion is that if the deposits are withdrawn from the exchange banks, then they will get the foreign capital to work the trade. Have you any third suggestion to make ?

Dr. Jeidels: I have no third suggestion.

Dr. Trip: There is a possibility, I think, in normal times, for strong and good concerns in this country to get capital from abroad. I do not advise it. I only mention this as a possibility. In normal times, if there is international confidence, if the Imperial Bank wanted to issue shares in a foreign market, it can do it.

Lala Harkishen Lal: That is another service of the Imperial Bank ?

Dr. Trip: I do not say that. It is a possibility.

Lala Harkishen Lal: Some people in this country are saying that the foreign trade of India is also the foreign trade of the other country. For

example, the exports of Germany are our imports, and our exports are their imports. London is the clearing house for international accounts. But London also affects only to the point of the difference. Don't you think that one way of getting over our troubles would be that we should settle our accounts more speedily, and with greater velocity, rather than pass it through London, between individual countries, and that can be done by a system of joint banks ?

Dr. Jeidels : If there were only two countries in the world, India and one other country, then one would not need the intricate instrument of foreign exchange. But the international instrument of foreign exchange has come into existence in the world owing to the diversified nature of the business, of countries and of commodities. There is, however, no monopoly for the pound. The foreign trade uses the cheapest way of forming the bridge between two countries. This idea, which is certainly interesting, seems to me to be a more primitive form in the place of a higher developed form. The higher developed form uses the cheapest money of the world. It uses the one or the other of the international markets for payment. This is a much more complete system than this sort of accounting, which you seem to have in mind.

Lala Harkishen Lal : I said that the exchange, the cheapest money, comes in only for the difference between exports and imports.

Dr. Jeidels : I think your system is more primitive.

Lala Harkishen Lal : In the doctor's view the more primitive life you lead, the better it is for the health, and the more complicated life you lead, the more ill health. I am one of those people who cannot lead a primitive life. I am also like you, gentlemen, leading a very complicated life and a very advanced style of life.

Dr. Jeidels : Perhaps we are spoilt childern.

Lala Harkishen Lal : But at the same time one has to consider whether Indians, who as a body are not so advanced as the Europeans, should be told to follow the up-to-date European fashions in economics and in other directions, or whether they should not avail themselves of their crude primitive and elementary habits and ways of thought.

Dr. Jeidels : It is a long and interesting statement, which cannot be easily answered in a few words. If a country wants to lead a simple life, it saves a great deal of money like all simple life, but it has to pay for it. It has to pay the cost of import and export. I think the present form of giving international trade transactions the expression of foreign exchange bills on the cheapest markets is a highly developed system.

Lala Harkishen Lal : I quite realise that. What is the difference in value between this complex system that we live under and this primitive system that I have mentioned ?

Dr. Jeidels : I think your system has no chance. If a country wishes to develop its resources, it has to import, and to export, and requires a highly developed system of foreign exchange banking.

Lala Harkishen Lal : What is the difference in the plan that I have mentioned and in the plan which is now followed ? Is it $\frac{1}{4}$ per cent. on each transaction or $\frac{1}{2}$ per cent. or 1 per cent.?

Dr. Jeidels : It is difficult to answer.

Mr. Currie : May I ask one question of Lalaji ? Where is the settlement ?

Lala Harkishen Lal : In London, as soon as the occasion arises.

Mr. Currie : When will you know the occasion has arisen ?

Lala Harkishen Lal: It will adjust itself in this way. We have money in Germany. Instead of automatically going to London, we might send it to China. We might want to buy something in China and we might tell Germany, supposing we are the creditors, " Can you give us this much money in China "? They say " Yes, we are sending goods to-day ".

Dr. Jeidels: They will give you a cheque in pounds or in dollars to pay in China.

Lala Harkishen Lal: It does not matter whether it is in pounds or in dollars so long as I am buying goods there and my money gets there. It does not matter how it gets there. It will get into the currency which the Chinese will appreciate.

Dr. Jeidels: It is travelling in an ox cart instead of in a railway; it is a slow travelling.

Lala Harkishen Lal: In my lifetime I have travelled not only by an ox cart but by donkeys also. There is no animal, which is a transport animal, by which I have not travelled. I know it has disadvantages. But there are places where the railway cannot get by any imagination. Therefore you have to do it by an ox cart.

Mr. Currie: According to your system, several transactions will take place between Germany and India and you will accumulate your balances before you discharge them. The advantage of the present system is that as each transaction takes place, it will be discounted and the money will come straight back to you. The whole object of having the exchange market is to facilitate and quicken up that service.

Lala Harkishen Lal: If the economic condition in view was only to have a little commission to pay, the London Clearing house is there. But if the object was really to have friendly relations and bring friendly resources to our assistance, my system is the cheapest possible. We cannot be sure of bringing all our foreign capital from one country. Therefore, what I am suggesting is this. We might, for example, be able to get sugar on credit from Java, which we are not at present able to do in all cases, because we are not dealing with Java through an Indian bank. The Dutch are very rich people.

Dr. Trip: No, no.

Lala Harkishen Lal: Don't be modest. In the same way, France and America are rich countries. We might be able to get all the wines from France on credit. We might be able to get all agricultural machinery on credit from America.

Dr. Jeidels: You think of the banking relations. Every merchant who does import or export business ought to try to go as near his field of action as possible.

Lala Harkishen Lal: Does it not follow that when the trade between America and India developes, a banking account on both sides will be more useful than a banking account through London. Our trade will develop if we have banking relations as well as trade relations.

Mr. Currie: Are you talking about getting banking connection in the country or planting of banks ?

Lala Harkishen Lal: That is a matter of detail. What I want is this, that we ought to have banking accounts in some countries and joint banks in other countries. It would depend on the time, the distance, the amount of business and so on. I am practically putting this through you to the Committee for consideration later. If you give a solution, very good. If you

do not give a solution, we as members of the Committee will have to consider t. My view is that India should have joint banks with several countries, like the banks that are now being started between South America and various European countries, the banks that exist between Egypt and Italy and Germany and so on, banks that are springing up between the western section of Europe and the eastern section of Europe. I wanted to ask your opinion on this. Joint banks and banking accounts in various countries would, in course of time, solve to a very large extent our exchange difficulties.

Mr. Currie: It is not necessary to do that in order to start doing foreign exchange business. All that is necessary is to appoint a bank in the foreign country as your agent and to do your business through an account with them.

Lala Harkishen Lal: Suppose we all start the exchange business in that fashion?

Mr. Currie: It is very much cheaper than any other.

Lala Harkishen Lal: That is a very good suggestion.

Mr. Currie: That will have to be done by some bank in India.

Lala Harkishen Lal: Therefore, the advice to India from this Committee, if not from the experts, would be that she ought to develop her relations with all the countries independently, instead of passing through one exchange. The second step would be to open mutual accounts, and the third step would be joint banks. This would sum up the analysis to which this discussion has led.

Mr. Lamond: There is one point I would like to bring up. It bears very much on Lalaji's point, and that is, national banks opening branches in this country, and carrying on trade of their own nationals. Japan was specially mentioned. In 1927-28, the export from Bombay to Japan was 22 crores of cotton. That is the lower count cotton. In 1925-26 it was 45 crores. In 1927-28 the bulk of that finance was done by the Japanese themselves through Japanese banks. They open upcountry branches, they buy the cotton there, carry it to Bombay, ship it to Japan, manufacture it into cloth and send it back here for sale. From the time the cotton is got in the upcountry market until it is released again for sale it never leaves the Japanese banks. One witness who came before us said, "Why should Japan come here and buy our cotton in our own market and then bring cloth and sell it? Why can't we be in a position to go to Japan and sell out cotton there?" It takes half a minute to put the question, but it will take half an hour to reply. Could you give us your advice?

Dr. Jeidels: It is a perfect co-operation of trade and banking and shows the marvellous efficiency on the part of the Japanese in both lines.

Mr. Lamond: I would say it is commercial efficiency. It is supported by the banks.

Dr. Jeidels: It is commercial efficiency assisted by the Japanese banks.

Mr. Lamond: Would you suggest any way out of that difficulty?

Dr. Jeidels: Do the same; do efficient business like Japan. Send your men out and establish a cotton agency there.

Mr. Lamond: We have had Indian firms trading there, but not to a large extent.

Mr. Manu Subedar: That was 30 years ago. They have all come back.

Dr. Jeidels: If one meets with a sort of competition which is so smart and so efficient that one would be tempted to call it not quite fair competition, the best way to counteract the competitor is to imitate his methods.

Mr. Manu Subedar: As you say it is not a banking proposition?
Dr. Jeidels: No.

Mr. Rushforth: You had a very interesting discussion with Lala Harkishen Lal on the question of the resources of banks who felt that more resources are necessary in order that banks should be enabled to do foreign exchange business or to facilitate Indian banks doing foreign exchange. I do not think the question of resources has very much bearing on the question at the moment. I would like you to consider the following figures:

The Eastern Bank . . .	Capital and resources	1½ millions, say 2 crores.
The Imperial Bank of Persia .	Ditto .	1¼ millions.
The Mercantile Bank . .	Ditto .	2½ millions.

These are all banks which operate largely in exchange, and take a good proportion of the exchange business. Now look at the Central Bank of India which is one important bank which we have to consider from the practical point of view. It is a bank that is most likely to be able to undertake Indian foreign exchange business. Its capital and resources amount to 2 crores 68 lakhs of rupees. As regards deposits, there is very little comparison:

The Mercantile Bank . . .	15 million pounds.
The Central Bank . . .	17 crores of rupees.
The Eastern Bank . . .	6 million pounds.
The Imperial Bank of Persia .	6 million pounds.

It seems to me therefore that though there has been very free competition between these banks, the Central Bank has not been able to enter, to any extent, in the exchange market. It does not appear, therefore, that the question of resources is going to help us to solve our problem. I should like to say that you must not think that all our friends on the opposite side of the table and ourselves are really opponents in these matters. Even if Mr. Buckley is a competitor, I am sure he has sympathy and understanding for the national desire, *viz.*, that Indian nationals and Indian banks should undertake this exchange business. I am starting with destructive criticism, but I want to see if we cannot get down to some constructive suggestion towards the end. The second point I wanted to raise was with regard to competition. You have rather emphaiszed the point that competition might assist and that if the Imperial Bank were allowed to enter the exchange market, it might facilitate the national point of view. You have not suggested that it would afford increased facilities, but your idea was sentimental on the grounds it might also remove the feeling of discrimination between Indian nationals and British subjects. As regards the question of increased competition in the Indian exchange market, I should just like to point out that during the last 5 or 6 years (a few of these years were years of bounty and plenty) at least three American banks with large resources behind them have endeavoured to enter the exchange market, and I know from experience that they have done everything they possibly could to get hold of the exchange business and compete against the exchange banks, but they have been unable to do it. Their branches have either been removed or they have taken up other business. That is the experience of the last few years and, therefore, it seems to me that increased competition, whether from the Imperial Bank or from any other

source such as a Government state aided bank, is not going to assist in the solution of the problem. We, therefore, come down, in my mind, to the only way in which the problem can be solved based on a remark of Mr. Pochkhanawala. He said that it was impossible for an Indian exchange bank to do foreign exchange business without the co-operation and good will of the foreign exchange banks. Lala Harkishen Lal has touched on that point as well and that is the point I should like to pursue a little, if possible. To what extent is it possible to ensure more successful and better co-operation between the existing Indian banks and the foreign banks. The idea, in my mind, has been on the lines of Lalajee's joint banks. To what extent is it possible for an Indian joint stock bank to co-operate practically, and with results that would be satisfactory from the national point of view, with a foreign bank ? Could you tell us what exactly are the relations, for instance, between the Barclays Bank of Canada and the Barclays Bank of London ? To what extent is there co-operation between these two, or are they entirely separate institutions ?

Mr. Cassels : The Barclays Bank of London owns the bank entirely.

Mr. Rushforth : The capital is expressed in dollars ?

Mr. Cassels : Yes.

Mr. Rushforth : Was the Canadian bank started as a new institution or was it an existing institution taken over by Barclays ?

Mr. Cassels : It was entirely new.

Mr. Rushforth : Was not Barclays of France originally Cox's ?

Mr. Cassels : No.

Mr. Rushforth : In what way is it possible for a local bank in one country to co-operate fully and freely with a bank in another country ? I was also thinking of your own bank, the Bank of Montreal, also a Canadian bank with a branch in London.

Mr. Cassels : They are all chartered banks, including Barclays, and they are all members of the Canadian Banker's Association, which is an Association on which each bank is represented by a general manager. This institution has several duties to perform but it is, in a measure, a sort of co-operation between all banks. When a question of banking has to be discussed with Government, Government do not refer it to individual banks ; they refer it to the Canadian Banker's Association which represents all banks. Barclays Bank, as a newly established bank, automatically became a member of the Banker's Association.

Chairman : Is there not some sort of linking as Mr. Rushforth refers, between some of the German banks and the banks in South America ?

Dr. Jeidels : There are two systems, one is the establishment of German banks in South America, the entire capital belonging to German banking interests, the other specialised banks for South America with branches there but head office and capital in Germany. The German trade, however, uses many foreign banks and does not limit itself to the German banks in South America. And German banks hold friendly relations with banks in South America, but without participation in capital.

Mr. Rushforth : In management there is no interchange of staff ?

Dr. Jeidels : No.

Mr. Rushforth : There are no facilities for training a South American man in Germany and *vice versa* ?

Dr. Jeidels : Yes, friendly arrangement means that one institution can use the other institution up to a certain limit of funds in one of the two countries,

or in a third country, granting each other a certain line of credit. This does not require and is not accompanied by an interchange of management. The Imperial Bank of India, similarly, could cultivate such friendly relations in other parts of the world without having to own subsidiary companies in other countries.

Chairman: Would that be analogous to Lala Harkishen Lal's idea of a joint bank ?

Dr. Jeidels: Technically it is always dealing in foreign exchange.

Lala Harkishen Lal: There are various terms, sometimes branches, sometimes affiliation and sometimes association; sometimes it is called commanding interest. Models of all these exist in various countries.

Dr. Jeidels: It is quite possible for joint stock banks of sufficient standing to establish relations with other banks which include a certain line of credit. But technically it is always buying and selling foreign exchange. For instance, an Indian joint stock bank can establish such relations with a German bank, because in Germany Indian business arises and in India German business arises. They would come into closer connection and the German institution would grant to the Indian joint stock bank a certain line of credit which would be used in the form of drafts. The technical side of the foreign exchange business would remain the same. Only a new source of credit would become available. It is quite a field for co-operation between Indian banks and banks in other countries, and we advocate that something should be done in this direction.

Mr. Rushforth: I think it would be necessary that something should be arranged more than an ordinary agency. Mr. Subedar has already pointed out one thing that would not be generally acceptable here and that would be the purchasing of an Indian institution by a foreign institution.

Dr. Jeidels: It is not at all necessary.

Mr. Rushforth: I suppose the name Barclays Bank by itself gives them some benefit.

Dr. Jeidels: Undoubtedly.

Mr. Rushforth: Although liabilities are limited, it automatically gives the bank a closer connection and a certain pull over other banks.

Mr. Cassels: As a matter of fact, the main reason for their going to Canada was not simply because the name is well known over the whole globe. They already have a large business with the West Indies. There is considerable business between the West Indies and Canada and between the West Coast of Africa and Canada. That banking followed trade was true in that case. Their first reason for going to Canada was in order to foster the trade between these various countries.

Mr. Rushforth: I have heard of another suggestion in connection with the closer connection of Indian joint stock banks with foreign banks. It is said that it might be possible to start, say, the Central Bank of India, Limited, London, in which half the capital would be put up by a London institution and half the capital by the Central Bank here. I myself do not quite like the idea because I do not want to start new institutions and think that we have enough institutions to work on here. I suggest as an alternative that an Indian bank should exchange shares with some institution as a mutual arrangement.

Dr. Jeidels: The first scheme would, of course, be more acceptable to national sentiment. It is rather a onesided solution.

Mr. Rushforth: It seems to me that the two practical problems we have to face are, fi stly, to get rid of the idea of racial discrimination and, secondly, to afford adequate facilities for Indians to take a share in the institutions working in this country. This would have to be done by some mutual arrangement between the managements of the banks in the foreign countries and here. That is the idea. I wanted to place before you and ask if you could make any practical suggestions.

Dr. Jeidels: Some practical experiments might be tried on these lines. I suppose the first thing to do would be to cultivate the actual relations between the Indian joint stock banks and their correspondents in the other parts of the world. Whether special institutions abroad should be created depends on how intensive the interest is on the other side. A new institution is in itself scarcely necessary. If an arrangement is made between the Indian joint stock banks in the various places of the world and other banks, it does not require additional capital. Capital expenditure for such purposes may meet with difficulties. A system of active correspondents in all those countries with which the customers of Indian joint stock banks do business is certainly to be advocated. In business with the United States, for instance, there is no reason why banks in India should not establish close relations with such banks in the United States of America who are not doing direct business in India. If foreign exchange business proves to be profitable on the lines as done by the exchange banks here, it will develop as such with the Indian joint stock banks, and if it is not profitable, mutual relations with strong correspondents in other countries will serve a good purpose even without a full-size foreign exchange business. It would certainly have the useful effect of bringing Indian trade into direct relations with other countries, and it would spread the information that national banking exists in this country. I wish to support such active policy on the part of joint stock banks and the Imperial Bank, because it helps to create a favourable atmosphere for national Indian trade in international business. There is, by the way, perhaps, another possibility to assist Indian merchants. In many countries there are special Chambers of Commerce for the trade with one specific country. If I am not mistaken, there is, for instance, an Argentine Chamber of Commerce in London. In my country who have an Italian, a Roumanian, and similar Chambers of Commerce to develop the trade between Germany and the respective countries. Their purpose is, and I think they pursue it successfully, to bring merchants together to organize import and export trade.—With regard to the question of resources, I do not think that the capital of the exchange banks is and has to be so large, that one would have to say, that a new bank can not be established; but I agree with Lala Harkishan Lal that for the many objectives discussed in the aggregate, quite considerable capital resources and such of a liquid nature are required. Capital for the Reserve Bank, capital for the Industrial Corporation, for industrial debentures and now eventually for an Indian exchange bank. Taking all these propositions together, it certainly means a good deal of money, and one may be doubtful whether it is available.

Mr. Rushforth: My point was that I thought that in concentrating so much on the question of resources and the possibility of additional competition, we were not going to make any immediate addition to the solution of the problem. We have more than ample resources now. We discussed this morning the comparatively small proportion of the resources of the foreign exchange banks. I know that the resources of the Indian joint stock banks have at times been lent to foreign exchange banks.

Dr. Jeidels: Indeed, less attention should be paid to competition and more to co-operation, and it is in this spirit that I advocated the establishment of

a network of relations and connections by the existing joint stock banks, including the Imperial Bank, in various countries. It would certainly be most useful, as it has been proved in the case of Japan. German banks have always been very active in this direction entering into close relation and friendship with their foreign connections. I think that every country ought to cultivate its method for every branch of economic life, and see a great field for it in India.

Sir Hugh Cocke : I gather from Mr. Rushforth's opening remarks that he does not agree with your opinion that if the Imperial Bank comes into the field, they would be able to make much progress. He is basing his opinion, to some extent, on the American banks that have failed to get into the exchange market to any great extent. On that point I should like to know if you consider it would be so, assuming that the Imperial Bank becomes a commercial bank ? It would then allow interest on its current accounts and attract new connections in that way.

Dr. Jeidels : That a big Indian institution not allowed to do a class of business which is important for the country at large, I think, is open to some criticism.

Mr. Lamond : It means that the Imperial Bank's constituents have to go to another bank for part of their business.

Dr. Jeidels : I think it is an unsatisfactory situation, and I do not like a restriction of this kind, although in this case it is due to the fact that the Imperial Bank has to combine so many functions, being a Government bank and a sort of currency bank. I dislike the restriction more as a matter of principle than from a consideration of the volume of business which the bank would attract if the restriction did not exist. That an Indian Bank, the Imperial Bank, is excluded from certain business which is done by foreign banks and which is important from the national point of view, I must say that I share the sentiment about it.

Sir Hugh Cocke : There are really 3 main suggestions evolved from this discussion which might give India a share in the exchange business. One is Imperial Bank taking up the work when it is able to do so. The second suggestion is that the existing joint stock banks might combine and form an exchange bank ; and the third is the idea of a *liaison* between the existing Indian joint stock banks and the existing institutions abroad. I should like to know which of these fields you consider the most likely to develop so that the Indian nationalist aspirations may be satisfied by getting a share of the exchange business.

Dr. Jeidels : If you have several methods to propose, I would generally advise to use them all. If the Imperial Bank establishes a business organization in this line, there is no reason why the joint stock banks should not do it and why they should not do it in a different form from the Imperial Bank. Any diversified plan is to be welcomed.

Sir Hugh Cocke : You do not favour one more than the other ?

Dr. Jeidels : Yes.

Sir Hugh Cocke : As regards the staff, I think it was Mr. MacDonald who did not consider that the Imperial Bank would have the staff to deal with exchange business. That, of course, would be a matter of expense, but one that the Imperial Bank might not mind. It might be a very expensive thing to establish a new bank for some years and getting new staff out for this so-called combined bank ?

Dr. Jeidels: There will be many practical difficulties less on the foreign side than on the domestic side. If such combined exchange bank is, in the interest of efficiency, principally controlled by one bank, then the other banks are more or less disinterested; and if all the joint stock banks take an active part in the institution, the new instrument may be hampered in its efficiency. Such combined institutions, as a rule, prove to be very difficult in practice.

Sir Hugh Cocke: If the Imperial Bank have not got the necessary material in India they would have to import it.

Dr. Jeidels: For me the principal point is not which kind of business the Imperial Bank actually choose to cultivate; that is a matter of management; but which fields the bank is entitled to cultivate and from which it is officially excluded.

Chairman: Mr. MacDonald said, all the same, there would not be much difficulty in training the staff. They are actually doing a certain amount of foreign exchange business even now. Before I ask Mr. Subedar to resume his questions, I would just like to ask you one question. You now know the full facts connected with the present position relating to the Imperial Bank and the foreign exchange business. Would you have any objection, before the establishment of the Reserve Bank, to the Imperial Bank starting foreign exchange work?

Dr. Jeidels: There is a difference, or rather a variety, of opinions among the experts. Personally I would see no objection.

Chairman: How many of your colleagues share that view?

Dr. Trip: I do not share that view quite fully, not because I see great objections against the Imperial Bank entering into the field of foreign exchange but because I am of opinion that as long as the Reserve Bank is not working in this country, the Imperial Bank ought not to enter into new fields, because, in my opinion, the position of the Imperial Bank as Bankers' bank, and the central credit giving institution in this country, is for the time being, if I may say so, rather weak and I should not like to weaken that position—not of the Imperial Bank with regard to the soundness of the business, only with regard to the inland credit to which Lala Harkshan Lal alluded. I think all the resources of the Imperial Bank at the moment must be kept for inland credit giving, especially in busy seasons and I think that it would be really detrimental to the country if part of the resources of the Imperial Bank were invested in foreign exchange business.

Chairman: What about a time of depression like the present?

Dr. Trip: We will come later on to that. I am only referring to the general position of the Imperial Bank in this country at the moment, under the present regulation, with regard to their being to a certain extent the bankers' bank.

Mr. Cassels: I rather share Dr. Trip's opinion on that. I understood that there was compensation for the Imperial Bank for not doing foreign exchange, that there was a *quid pro quo*. That was when they had the right to take Government balances.

Chairman: I do not think that is wholly correct. They are the bankers' bank, that is the position. It is not a question of compensation or *quid pro quo*. It was held that, because they were functioning as holders of Government balances and of banker's balances, they ought not to enter the field of

foreign exchange. There was no *quid pro quo*. That was one of the arguments used and I was simply trying to find out whether that was a sound argument. In Dr. Jeidels' opinion, he does not consider that to be a sound argument. Dr. Trip without stressing on the argument thinks it will be undesirable because it would mean less resources available for internal trade, He rather sees the force in the old objections.

Mr. Currie: I agree with Dr. Trip entirely in this matter. But I would also say that if the Imperial Bank, while it is still the Reserve Bank, was to enter the field of foreign exchange, it would be necessary for them to keep considerable funds abroad; and then they would be faced with the same criticism as the exchange banks—that they are actually taking Indian money away.

Mr. Jamal Mohamed: If it takes 4 or 5 years for the establishment of the Reserve Bank, would you still be of the opinion that the Imperial Bank ought not to enter into the foreign exchange business?

Dr. Trip: Yes.

Mr. Jamal Mohamed: There is some objection to Imperial Bank doing foreign exchange business for the reason that it holds Government balances and also other banks' reserves. But it enters into competition with other indigenous banks. If it does one thing, why should it not do the other thing.

Dr. Trip: My point is not that it would be competition with the existing foreign exchange banks, but because I fear that the basis on which the Imperial Bank is the central credit giving instrument in this country would be still more weakened.

Mr. Manu Sudedar: With regard to item (c), you refer to the higher rate in India as a sufficient safeguard for Indian money.

Dr. Jeidels: Yes, this is one of the two arguments submitted.

Mr. Manu Subedar: If the rates in, say, London and Amsterdam, rose very high, the danger would be that our deposits might be used there?

Dr. Jeidels: If the exchange risk can be covered.

Mr. Manu Subedar: Subject to the exchange risk, the level of rate of interest is an operative factor?

Dr. Jeidels: Yes.

Mr. Manu Subedar: In other countries, where banks are established and where rates are higher than India, the attraction of sending out this money is there.

Dr. Jeidels: I have selected only two principal reasons why I see no danger. One is the rate of exchange, the other the rate of interest. Generally speaking one may say that a bank which is working in a country where it takes deposits and cultivates customers, it will always try to employ as much of its funds as possible in the same country.

Mr. Manu Subedar: It will try to employ its funds as a whole wherever it can do so most economically?

Dr. Jeidels: Yes, but always trying to cultivate the natural customers.

Mr. Manu Subedar: You say that there is no danger of deposits collected in this country moving towards the West. I put it to you that a considerable amount of funds collected in India is leaving towards the East. We know this with regard to indigenous bankers—to Singapore, for instance.

Dr. Jeidels: Generally speaking, I do not consider it objectionable.

Mr. Manu Subedar: But our own internal rates for certain kinds of loan, as you yourself discover, are high, and the money lender or usurer is your

aversion. It is not my purpose to destroy them but to polish them and make them less primitive. If we have to give him securities by certain methods, which you yourself advise and if we want to bring these rates down, would it not be necessary to conserve these resources for use in this country ?

Dr. Jeidels : As a matter of fact the resources are not withdrawn. Speaking broadly, it is certainly preferable that such resources are used in the country.

Mr. Manu Subedar : The method of doing it offers many difficulties, but it is preferable that the money, which is the savings of this country, should be used to bring down the rate of interest in this country. Charity must begin at home ?

Dr. Jeidels : I agree.

Mr. Manu Subedar : About the Imperial Bank, you seem to be pinning too high a hope on the Imperial Bank entering the field of foreign exchange and thus satisfying both the Indian sentiment and the Indian demand. Have you thought of the danger of the Imperial Bank itself being acquired, and controlled, by foreign institutions ?

Dr. Jeidels : I have said earlier that I would not see grave danger in it, as I cannot believe that in practice the bank will be crippled, or mutiliated by the new shareholders.

Dr. Trip : Such abuse, however, is in our countries not prevented by law. In western countries for example in Holland companies protect themselves eventually by changing their Articles of Association. They create for instance preference shares and they give the right to decide on policy to the preference shareholders.

Mr. Manu Subedar : If some such thing was done, there would be no danger?

Dr. Jeidels : No, the companies can protect themselves.

Mr. Manu Subedar : Or as a matter of policy it can be recommended to them ?

Dr. Trip : Yes.

Mr. Manu Subedar : Now, Dr. Jeidels, I want to ask you about paragraph 2, *viz.*, limitation of deposits. You know what deposits they do attract and you know how much they are using in financing foreign trade and how much for other purposes. That would be an undue proportion ?

Dr. Jeidels : I spoke of ' undue proportion, in comparison with the present proportion which has not increased in the last 10 years' *i.e.*, up to 1928. The figures for 1929 and 1930 are not available to me.

Mr. Manu Subedar : You know the proportion depends very largely on the rates of interest offered ?

Dr. Jeidels : Yes.

Mr. Manu Subedar : And if the exchange banks offer a little higher rate than what they do now, the proportion would necessarily increase ?

Dr. Jeidels : But they have not done so. We have a proverb, 'Don't paint the devil on the wall.' I think the state of affairs in this regard is satisfactory. There has not been an undue competition in rates, and the proportion has remained almost the same as it was ten years ago.

Mr. Manu Subedar : What would you regard as undue proportion ?

Dr. Jeidels: If there was a permanent increase in the proportion of the foreign banks, one would have to investigate the causes.

Mr. Manu Subedar: But when they got the control of the Allahabad Bank, the deposits of the Allahabad Bank which was hitherto regarded as Indian Bank became foreign ?

Dr. Jeidels: I do not think so, because the Allahabad Bank has not been merged with another bank ; it has remained a joint stock bank of its own.

Mr. Manu Subedar: You would, therefore, make a very considerble difference in view as regards the deposits in the Allahabad Bank and the Chartered Bank.

Dr. Jeidels: I see no objection against either of the two.

Mr. Manu Subedar: Do you see any difference in them ?

Dr. Jeidels: I see the difference that one is specialising in foreign trade finance and therefore doing comparatively less direct service to up-country business while the Allahabad bank is a specialised up-country bank.

Mr. Manu Subedar: In the one case shares are available in this country they are held by Indians—auditing is done here and the full balance sheet is lodged, publicly declared at stated periods under the Indian law. Would you then make any difference between the Chartered Bank and the Allahabad Bank or would you not ?

Dr. Jeidels: The two banks are certainly different, because they do a different kind of business.

Mr. Manu Subedar: The Chartered Bank also does a considerable amount of internal service ?

Dr. Jeidels: But they are not specialising in it. The Allahabad Bank specialises in it and does so under separate management.

Mr. Manu Subedar: They are two separate institutions in law, but one has rupee capital, registered under the law in this country.

Dr. Jeidels: They are two different kinds of joint stock companies, but both operate in this country and for this country.

Mr. Manu Subedar: You must accept either the one or the other position. Do you accept the position that being controlled by foreign bank the deposits of the Allahabad Bank become deposits with a foreign bank ?

Dr. Jeidels: I do not think so. It is an Indian bank with its head office in India.

Mr. Manu Subedar: Supposing the limitation is accepted by the State, does this limitation *ipso facto* apply to those institutions in which the controlling interest is acquired by outside people.

Dr. Jeidels: No, unless it is in the law.

Mr. Manu Subedar: You say that limitation would be ineffective. Ineffective to achieve what purpose ?

Dr. Jeidels: Although joint stock banks actually offer higher rates of interest than exchange banks, yet the deposits remain with the exchange banks. Therefore, if the difference in interest rates is reduced by such special tax, deposits would not necessarily be driven from the exchange banks to the joint stock banks.

Mr. Manu Subedar: But the difference would be reduced ?

Dr. Jeidels: Yes.

Mr. Manu Subedar: And to that extent the tendency would be reduced ?

Dr. Jeidels: It is difficult to guess what is in the mind of the depositors who are and remain permanent customers of the exchange banks. The regularity in the distribution of deposits is striking because in other countries, I think there is a greater variation.

Mr. Manu Subedar: I take you now to paragraph 3. You are objecting to the compulsory formation of rupee companies.

Dr. Jeidels: Yes.

Mr. Manu Subedar: Do you object also to the voluntary formation ?

Dr. Jeidels: No.

Mr. Manu Subedar: If a firm or Corporation wanted to register itself in rupees in this country you would not want any objections to be raised ?

Dr. Jeidels: No, if it is considered advisable.

Mr. Manu Subedar: The point has been put to us that banks should be encouraged to register themselves in this country in rupees. If they were so registered then they would come on a par with other banks, registered in this country in rupees. It has been suggested to us that, as a matter of national policy, it would be better if we could induce them to do this, and the problem is to find sufficient inducement for them, those of them that think it is worth their while, to do this.

Dr. Jeidels: Perhaps you can enlighten me on the advantages which you expect because I really do not find any except that you have a balance sheet for the Indian business. I find some disadvantages, and would like to know the eventual advantages.

Mr. Manu Subedar: There are many advantages, but it would be a theoretical discussion. You are such a versatile man that you can easily imagine the advantages and the disadvantages.

Dr. Jeidels: I see the advantage, which I do not value very much, that you have a balance sheet published every year and a share holders' meeting in the country once a year.

Mr. Manu Subedar: You would have Indian Directors, Indian shareholders, and Indian auditors.

Dr. Jeidels: The Directors I put on the disadvantage side. If the Chartered Bank would have Indian Directors on the board of her Indian Company, I would consider it a disadvantage from the Indian point of view. The membership of such board is an attraction to important clients and a valuable advertisement for the businessman who is on the Board of a large bank in the country, no matter whether a foreign or a national bank. If the Chartered Bank with a rupee capital, elects some important Indian merchant on the board, it practically monopolises him to the disadvantage of, and in competition with, other banks.

Mr. Manu Subedar: Do you mean that we have exhausted the number of Directors in this country ?

Dr. Jeidels: There are 16 exchange banks and if you fill the board of those 16 banks with Indian personalities you take, so to say, the cream of the business world and withdraw them from future competition between the banks. A banker, in my country, whose business has the form of private limited company, which has as a rule no board of directors, told me that he has decided to change the articles of association and provide a board of directors because the joint stock banks can offer his customers the attraction of a membership on the banks' board of directors.

Mr. Manu Subedar: You think, therefore, that it is an advantage for India that there is no Indian Director associated with the foreign companies ?

Dr. Jeidels: You twist my answer a little ; I say it is a disadvantage to the Indian banks.

Mr. Manu Subedar: Do you see any other disadvantages in the registration of these companies here ?

Dr. Jeidels; One may call it a disadvantage that the rupee capital is smaller than the present capital. If a bank does business in China, West Africa, East Africa and in London, and forms for the Indian business a separate company with rupee capital, such a rupee capital will be smaller than the present capital in pounds sterling.

Mr. Manu Subedar: It depends on whether a foreign bank only creates a small field out here or whether its head office is transferred to India. If the Netherlands Trading Company removed its head office from Holland to Bombay, it becomes an Indian company registered in India with rupee capital and with branches ?

Dr. Jeidels: Then Amsterdam is to be a branch ?

Mr. Manu Subedar: Yes.

Dr. Jeidels: It is unlikely that this would take place. What would probably take place is this: Say there is a bank operating in China, Africa and India, one-third of the capital is employed in each place and the capital is £5 millions; the capital of the Indian company would be $1\frac{2}{3}$ million pounds.

Mr. Manu Subedar: That is the owned capital; that is the share capital. Assuming that there is an institution whose working capital is derived 75 per cent. from India and 25 per cent. from other places. If it was enacted that only those banks which are registered under the law of this country would be allowed to take deposits, it might think it worth its while to convert the whole and transfer the head office here.

Dr. Jeidels: It is not likely. If China and Africa made a similar law then certainly the company would have to be split up.

Mr. Manu Subedar: Until China and Africa made such a law, what would you think ? Would you think the advantage of taking deposits in this country would be considered by them sufficient to remove their head office, express their capital in Indian currency, and register themselves under the Indian law?

Dr. Jeidels: The capital would have to be split up for the three fields of activity to be prepared for the possibility that China makes a similar law, or the bank may have to move the head office from India to China. The capital would be split according to the needs of the business, but in any case it would be smaller than at present.

Mr. Manu Subedar: Do you think there is no other disadvantage from the point of view of the foreign bank in registering themselves under the law of this country ?

Dr. Jeidels: I suppose not.

Mr. Manu Subedar: Supposing it was regarded here as essential that these banks should be registered under the law of this country, what inducement would you give them to do so ?

Dr. Jeidels: In the memorandum I mentioned another disadvantage, but we may come to it later.

Mr. Manu Subedar: What inducement would you give them? The inducement that some of us have thought of is to permit them to do banking business in this country including the taking of deposits which would not be available to those banks which say, "We do not wish to register under your law." What inducement would you give in order to increase the registration of banks in this country?

Dr. Jeidels: It is very difficult for me to suggest anything, as the whole idea is so strange to me. I would have to think about it. Perhaps you could give them an advantage in taxation, if this is compatible with the general interest of the tax-payer; and they may expect more Indian customers throughout the country.

Mr. Manu Subedar: The customer seeks his own convenience even if it is against national policy.

Dr. Jeidels: That is human nature, to which we have alluded repeatedly—a danger has occurred to me, which I take very seriously. Imagine some of the foreign banks would not like to register as a rupee company. Their Indian business may be comparatively unimportant, compared not with the volume of other banks in India, but with the volume of their entire business. As you know, many exchange banks here are non-English banks. They may not wish to form separate Indian companies, because they prefer to keep all their branches under the same organization, and if compelled to register separately, they may retire from this country. That I would, indeed, regret because it would reduce competition, it would reduce facilities and I do not see who is to take the place of the banks who disappear. That is, from my point of view, a serious disadvantage.

Mr. Manu Subedar: I would like to respond to the note sounded by Mr. Rushforth and I would like to say quite clearly, as Lala Harkishen Lal said, that we have an objective. We are trying to see how we can reach it with the least disturbance of the existing conditions. I am trying to see how we can change what are at present foreign banks into our banks, instead of driving them away. I am earnestly seeking a method of achieving this result, and I come to this conclusion, provisionally, that we should give them considerable inducements, make it worth their while to settle down under the law of this country and become domiciled in India. It may be that this process is the easier and better from every point of view instead of the process of creating brand new institutions from the beginning. We could create them. You know that a nation which is determined to do a thing can do it. Therefore, you agree that it is possible to create them and to replace all these foreign banks if this country were prepared to pay the price.

Dr. Jeidels: It certainly can do it; but whether it can replace what it has destroyed, remains an open question.

Mr. Manu Subedar: If the tax-payer were prepared to pay the price for another five years or ten years.

Dr. Jeidels: I am afraid it is not the tax-payer directly who would pay it, but trade and commerce would pay it.

Mr. Manu Subedar: They could certainly raise up institutions in which you said there was not much mystery, if they wanted to dispense with the factor of cheapness which you have mentioned. The Englishman always says everything which is cheap is nasty.

Dr. Jeidels: Is there an estimate of the Indian proportion of the various foreign banks' business—even a rather rough estimate would serve my purpose—you may be able to say of one bank that probably 75 per cent. of its business is in India and of another that it is only 2 per cent.

Mr. Manu Subedar: There are at present 18 banks working here. Some of them may be in the position that their business is not large and they would never be induced, but it is quite possible that out of these 16 or 18 banks, 2, 3 or 4 may find that rather than forego the advantage which they are at present getting and also rather than let go established connections which they have made, they might care to remain. They have to fulfil the following conditions: They have to issue a balance sheet, have their capital in this country in rupees and hold their board meetings in this country instead of in other countries, and as for the law of this country, I take it they would regard the law of this country just as good as the law of any other country.

Dr. Jeidels: One of them, the National Bank of India, has, I believe, originally had a rupee capital.

Lala Harkishen Lal: It was an Indian bank and it is now sterling.

Mr. Manu Subedar: Let us take the National Bank of India. Under the scheme I was mentioning they may think "We can still operate in the same manner as we did before; why should we allow an established business to go merely on the sentiment that we shall remain a sterling company."

Dr. Jeidels: I have expressed an opinion and I am unable to change my conviction that these banks are working as satisfactorily for the country as can be expected under the circumstances, with slight exceptions which are mentioned in our memorandum. Therefore, I am of the opinion that one ought to leave them alone. If an effective change would be made in their legal position, it would involve disadvantages to the country, and to do something which is not effective, I think, no new rules and institutions ought to be introduced.

Mr. Manu Subedar: Do you think that because the capital is expressed in rupees it would cease to act satisfactorily; do you think it would make any difference?

Dr. Jeidels: Of all these measures which have been recommended probably the least objectionable is that of encouraging the banks to create a rupee capital; but I do not see the advantage of it.

Mr. Manu Subedar: I may mention the advantages to you. If four of these banks turn themselves into rupee capital then some of the deposits which are with the other banks, who do not want to come under the rupee capital, might be attracted to them, and they might have even larger operations than before, if they do come in.

Dr. Jeidels: In this case I can really see no essential advantage from the Indian point of view. Every regulation is a knife with two edges. If foreign banks have to establish themselves with rupee capital, to publish their balance sheets as others do, and to have a general meeting in this country, such regulation may turn out to be harmless from the bank's point of view, because all the shares are in one hand; in that case there is no real change and the measure ineffective. I am always against legislation which serves no real purpose.

Mr. Manu Subedar: You said the change is ineffective. It is ineffective for what purpose?

Dr. Jeidels: From the point of view of national sentiment.

Mr. Manu Subedar: It is not a question of national sentiment. Lala Harkishen Lal told you that throughout the evidence of the representatives of Indian opinion there is one objective. There are many means towards that objective, but there is one definite objective running throughout, namely, that the foreign exchange business, which is at present a foreign monopoly, must be broken and that Indians must have a considerable share in that and that everything must be done towards that end. That is the objective.

Dr. Jeidels: Is that achieved by making a rupee capital ? The rupee capital belongs to the same shareholders indirectly as it does at the present moment. What is the change ? There is no change with the two exceptions mentioned, that balance sheets are published in India and a separate board of Directors has to be set up ; this is really no change.

Mr. Manu Subedar: No. The idea would then be that the shares of those banks, which are enjoying any economic benefit from State regulation in this country, must be to some extent in Indian hands. Whether the extent will be fixed the same for banks as for other companies I do not know, but the principle is that these banks are going to enjoy privileges which are not open to banks with offices abroad.

Dr. Jeidels: What are the privileges ?

Mr. Manu Subedar: The privilege of receiving deposits in this country.

Dr. Jeidels: Of course, if you decide on such measures they will establish a rupee capital, but you have still to answer my question, what is the advantage of having the same banks working with a rupee capital, the rupee capital in the future being indirectly in the hands of the same parties as it is to-day ? Would they be in your sense foreign banks or Indian banks ?

Mr. Manu Subedar: I think they would be more Indian than they are now. Instead of being absolutely foreign as they are now, they would come one step nearer. If you ask what are the next steps I would certainly mention to you, as I have just done, that one of the principles which the Indian Legislature has in other connections recognized is that any concern which enjoys any privilege which results in economic benefit to that concern should have Indian Directors on its Board and should have Indian shareholders on its register. Therefore, when you said a cent per cent outside holding, I am not contemplating that ; I am contemplating a combination.

Dr. Jeidels: Now we go a little further. In a change from sterling to rupee capital there is really no benefit, the change is much more in the outward aspect than in the contents. When Mr. Subedar says : " Well, this is only a first step. We want to change it into a company with a rupee capital, into a company which has Indian shareholders too and which has an Indian Board or a half Indianised Board."

Mr. Manu Subedar: Only a proportion.

Dr. Jeidels: I think we ought to see the proposition as it is meant : not as compulsory rupee capital but as a transformation into Indian banks of which a minimum number of shares must be held in this country. Against this proposition I have the argument, which I have already offered to you. I think there is a danger of a number of banks, for which the Indian business is not very important, going out of the country. I do not say they will, but they may, and that indeed I would regret. If the Chairman is good enough to allow me to repeat myself always in that one sentence : I would not touch a good instrument. If the number of banks is reduced, if a number of the present

foreign banks, of which after all, one half are non-English banks, leave the country or reduce their business, then I would regret it as a serious loss of banking facilities for the country.

Mr. Manu Subedar: That is hypothetical. You are supposing that they would go out. I do not suppose that.

Dr. Jeidels: They might.

Mr. Manu Subedar: What I am supposing is that some of them may wish to convert themselves, and the inducement for it is that the Indian deposits which they are receiving would be only open to the rupee company.

Dr. Jeidels: That would increase the strength of those banks which, as long as the majority of the rupee capital is in foreign hands, would be foreign banks.

Mr. Manu Subedar: Instead of the State, as a matter of national policy, setting up some entirely new institutions to replace these foreign banks, it says that a share of the foreign business must go into Indian hands. That seems to be the almost unanimous conclusion of every witness, of everybody who has talked to us, and the problem is how to do it. There can be the destructive method by saying "All right, we will get rid of all the foreigners and do it ourselves." That is a destructive method. Had it not been for the note sounded by Mr. Rushforth at that end, my discussion of this would have been somewhat different. It has been very considerably influenced by what he has said. I am now responding to that and am seeing whether this is not the best method of securing co-operation. Then there is the question who is to keep 51 per cent. which is the control? Well, the control would be in the hands of a common Board.

Dr. Jeidels: No, excuse me. If you go above the 49 per cent. and Indianise, to use a simpler word, then we have a new proposition to discuss.

Mr. Manu Subedar: Let us discuss it up to 49 per cent.

Dr. Jeidels: Up to 49 per cent. it is a foreign bank. If the number of foreign banks consequent to such procedure would decrease say from 16 to 8, I would consider it rather unfortunate for the country. In the discussion, you have assumed some hypothetical cases, allow me to do the same. If of these 16 banks most of those which are non-English leave the country, what will be left here are some English and some Japanese banks. You have to be aware that this would not be an improvement of the situation. The variety of banks and the variety of the countries from which they originate, is, I think, one of the advantages of the present situation. There is foreign banking in this country, foreign in a very diversified sense. If, under your system of 51 per cent. foreign rupee companies, you would lose some of those foreign banks, particularly those which are not English or Japanese, you make the instrument, which I have mentioned so often, less efficient, less highly qualified.

Mr. Manu Subedar: You do not say which you would rather have, replacement of foreign banks by the destructive method or the improvement of the present situation by the co-operative method. I understand that you would not touch the situation at all. But assume it is necessary, as Mr. Rushforth said, that something has to be done: would you rather have the destructive method of browbeating, penalising, and disturbing the working of foreign banks in this country and setting up new institutions with State aid in various forms, or, would you rather approach the problem by the method I am suggesting in order to secure the least disturbance in the existing order of things and the greatest amount of co-operation. ?

Dr. Jeidels : Under the assumption, which I cannot share and which is not my own, that one of the two would have to be done, I would choose the smaller evil of retaining some banks in the form of rupee capital banks because I am absolutely convinced that for many years to come India is not in a position to dispense with foreign banks.

Ch. Mukhtar Singh : You have suggested that there need be no law with regard to foreign banks. It is possible that tomorrow a bank with insufficient capital might be established, and fail, and depositors' money might be lost. In that case foreign banks also would suffer in reputation. Would you suggest some means by which the interests of depositors could be safeguarded ?

Dr. Jeidels : Past experience has, I think, not made any regulation necessary, and therefore I would leave it alone. I am not in favour of legislation which takes care of distant or theoretical possibilities.

Mr. Ramdas Pantulu : What my friend wants to know is this. It is all right as regards the existing banks. If new people want to come in would you agree to licensing ?

Dr. Jeidels : I cannot favour licensing. The existing foreign banks are not against licensing ; I suppose they would be quite happy if no further competition would enter this country. I take the part of the country at large ; I do not object to further competition entering this field and this country, if it is financially strong. The only regulation which I can consider as sound is the control by the central banking institution of the country. The central banking institution, when you once have it, will certainly have a very important word to say in the matter here. If the Reserve Bank refuses to open an account for any bank, you have all the control and restriction required.

Ch. Mukhtar Singh : It has happened as a matter of fact. Once depositors did not get their money.

Mr. Manu Subedar : It was only the case of a Japanese bank suspending payment.

Ch. Mukhtar Singh : That shows it was a weak bank, and there was the possibility of depositors losing their money.

Dr. Jeidels : I would not make legislation for possibilities, but only for probabilities.

Ch. Mukhtar Singh : You won't even make some regulation for permission being granted in the first instance if a new bank starts business in this country.

Dr. Jeidels : I would not make any change in the present state of things. You have a wonderful instrument, the best imaginable instrument, for the time being, for the development of Indian trade, which is principally in my mind. If changes are made, it is obvious that any new bank, Indian or foreign, to be established in Lahore or in Calcutta, would have to apply for licence ; even in the mildest form licensing would always imply this. In itself it is a comparatively harmless measure, but we do not advocate it because we do not think it is useful for the country.

Ch. Mukhtar Singh : You would like to continue the present system till some foreign banks fail and depositors lose.

Dr. Jeidels : I do not hope nor expect that banks will fail.

Ch. Mukhtar Singh : Unfortunately there is no system by which balance sheets can be asked for or filed, and the position of the bank disclosed. There is no law in the country.

Dr. Jeidels : I hope that it will not take many years before you will have the Reserve Bank, and the Reserve Bank will be the best institution for this kind of control. It will be better than any law because any law is mechanical and comprises a larger field than is desirable for business problems.

Mr. Manu Subedar : You would let the Reserve Bank say that such and such a new institution shall not take deposits.

Dr. Jeidels : A bank which is not admitted to the mechanism of the Reserve Bank, will scarcely be able to establish business.

Mr. Devadhar : Does it not mean some kind of regulation ?

Dr. Jeidels : Such regulation and legislation are two different things.

Ch. Mukhtar Singh : Don't you consider from the point of view of national trade it is necessary that exchange banks should help the country by studying foreign markets and giving information to the nationals of this country.

Dr. Jeidels : I think so.

Ch. Mukhtar Singh : I feel that is impossible as long as the whole business remains in the hands of foreign banks.

Dr. Jeidels : I do not consider it impossible. It is most desirable, and I think it is possible.

Ch. Mukhtar Singh : You consider foreign banks have done that work.

Dr. Jeidels : I cannot say whether they did it in the past.

Ch. Mukhtar Singh : If they have not done so it must be presumed they cannot do it. At least they never took interest in doing it.

Dr. Jeidels : They might do so in future.

Ch. Mukhtar Singh : They may not do it in future also.

Dr. Jeidels : If you establish some sort of organization on the lines suggested by Lala Harkishen Lal or those suggested by Mr. Rushforth, or on some other lines, joint stock banks would come to supply that information, and the law of competition will soon become effective.

Ch. Mukhtar Singh : There are certain recommendations made by you at the end which are simply recommendations to exchange banks. Suppose they do not care to act on them. You do not mind if they are not enforced by any regulation or law.

Dr. Jeidels : They are recommendations of what would be desirable. We have tried to make only such recommendations which we considered practicable and which, we believe, could be adopted.

Ch. Mukhtar Singh : If they are not followed what happens ?

Dr. Jeidels : I do not think I can say anything about it.

Ch. Mukhtar Singh : You would simply recommend, " Let us wait for some time. If the exchange banks act on those recommendations, all right. If they do not there is no objection to legislation to bring that result about ".

Dr. Jeidels : You ought to ask this question, when the case actually arises.

Chairman : (To Lala Harkishen Lal) Are you in favour of licensing ?

Lala Harkishen Lal : Mr. Buckley says that his association would not object. Exchange banks' licensing has been discussed. In the case of internal banks Dr. Jeidels opposes any sort of licensing. I am also against it. The desirability or otherwise of licensing depends on for what purpose it is done.

Chairman : (To Mr.Manu Subedar) Do you want to discuss the question of licensing ?

Mr. Manu Subedar : It is a big subject and I should like to discuss points arising out of the discussion of other people.

Chairman : Lala Harkishen Lal is not in favour of licensing. He seemss to agree with Dr. Jeidels. But I cannot agree. The question of licensing has been discussed indirectly in the course of this discussion. If you do not want to discuss this subject with Dr. Jeidels again, we may leave it at that.

Mr. Manu Subedar : I do not think there is much to be gained by a discussion where there is fundamental difference.

Chairman : I am simply trying to fix up a programme for to-morrow. (To Dr. Jeidels) Have you got any other points which you want to talk to us about ?

Dr. Jeidels : I want to say a word about money lending.

5th February 1931.

INDUSTRIAL FINANCE.

Note by Mr. N. R. Sarker.

CLASSIFICATION.

I. The classification of industries in order of magnitude and relative importance:—

(1) Industries of national importance requiring large capital such as ship building, railways, aircraft, munitions, hydro-electric schemes.

(2) Public service companies like gas, electric light and power, telephone; cotton, jute and woollen textiles; chemicals and drug manufactures; engineering and machinery production; glass, oil-mill, tobacco, cigars, matches and flour and rice milling; leather work, fruit and fish canning; metal manufactures, cement and other buildings and construction materials, soap, candles, pottery, electrical goods; development of mineral resources, iron and other materials, paper, saw and timber mills, tea and coffee, sugar factories.

(N. B.—Some of the industries in this class are in existence but their production is not commensurate with the national demand and to that extent new concerns in that industry may have to be started.)

(3) Industries of more or less local importance of the nature of cottage industries requiring much smaller capital.

II. Industries in class (2) may be classified as below according to their financial requirements:—

(*a*) Those that are established for some time and require further capital chiefly for extension or reorganisation with improved tools and equipment.

(*b*) Those which are newly established with a fair amount of capital but not sufficient to bring them to the stage of production, or those that are producing goods but not enough to make them cover working expenses.

(*c*) Those that are not existing at the moment but which may be established with a fair expectation of success under conditions.

THE NEED FOR A SPECIAL AGENCY FOR FINANCING INDUSTRIES.

The industries of national importance which require large capital must, for some time to come, be financed through the Government either with their own resources or by special loans floated either in India or abroad. Each case of course will have to be considered on its own merits.

Provision for financing industries mentioned in class (2) will have to be made according to their requirements as indicated in classification II.

The commercial banks cannot undertake this work as their deposits are mostly for short periods and they cannot afford to tie up any portion of their capital and reserve in financing industry as they will require all their resources to maintain public confidence to carry on their legitimate work of commercial banking. This caution is particularly necessary as the failure of one such institution would disturb the whole commercial banking structure which is now in the initial stage of development.

The work cannot be left to private enterprise alone as this will not be systematic and the capital market has not accustomed itself to investing in industrial shares. Moreover the funds in that market at present belong to the richer classes, and it is necessary that the middle class and smaller investors should be attracted to it. In most countries in a similar stage of development it was felt that there was need for a special agency to educate and encourage the general public in investing in industrial enterprises, to obtain their confidence through active participation in industrial development, by promotion of individual concerns, subscribing to their shares and popularising them by giving the hallmark of their approval.

In India, however, we require an agency which will attract and mobilise private funds for investment in the capital market for Industrial purpose. This agency would work with funds drawn from the investing public and by its efficient organisation, expert care and supervision will so regulate investment as to minimise the chances of loss of capital.

Resources.

The resources of this institution will consist of (1) share capital, (2) debenture bonds issued on the security of its assets with a certain relation to the share capital and not exceeding its assets at the time of the issue. It is desired that, ultimately, both the shares and the debentures should be in the hands of the public and the concern should be managed entirely on the lines of an ordinary joint stock company. In the present circumstances it is essential to stimulate public confidence in such an institution by some form of Government help. It should guarantee a minimum interest on the shares and debentures for a certain period, say five to ten years, and perhaps in special cases, subscribe a certain proportion of the share capital.

Functions.

The functions of such institution will be as follows:—(1) To grant long term loans to industrial concerns on the security of their assets or against debentures secured by those assets or against industrial shares. (2) To underwrite and subscribe to shares and debentures of industrial concerns. (3) To take long term deposits from the public. (4) To lend money to industrial concerns for short periods when funds are idle, through discounting their bills or otherwise. (5) To act as trustee for individual concerns raising money by debentures on their own assets. (6) To guarantee interest or principal of approved industrial debentures or loans. (7) To advance money against debentures or shares of approved industrial companies to the extent that it will stimulate public participation in them.

Precautions.

(1) In making loans, the institution will satisfy itself that there is the proper margin and that the concern will be able to pay the interest and principal on the stipulated dates. In the case of debenture issues of industrial concerns it will satisfy itself that they will be able to make adequate allocations to the sinking fund to redeem them on the due date. Through its continuous contact with the industrial concerns, it will see that the proper allocations are made as required. (2) Regarding its own issues it will provide adequate sinking fund for redemption and will also build up suitable reserves out of current income. (3) When underwriting, subscribing to or granting loans against industrial shares, it will assume only a reasonable proportion of these obligations. (4) To the extent to which it assumes such obligations it should be able to liquidate them within a reasonable time. (5) To safeguard its commitments in these concerns and the interests of the investing public on whose confidence it will depend for its success, it will maintain a permanent and continuous touch with them somewhat on the German model. It will associate itself with management through representatives and will thus receive information about them not only when matters are bad, but also considerably before this stage is reached. It will therefore be able to initiate and suggest reorganisation and other remedial measures to avert possible loss to the parties concerned. (6) Provision should be made to distribute the assistance it gives to industrial concerns so as to minimise the possibility of its resources being tied up in one or two concerns or one or two classes of industries.

Management.

The operations of the institution shall be conducted by a Directorate constituted on the same lines as for ordinary joint stock companies and subject to similar rules and bye-laws. The Government will have representation on the directorate in order to protect its interests as regards share capital and guarantee of interest and the chief officers of the bank will have to be appointed with Government approval.

Industrial Survey.

It would be advisable to have a survey of the industrial possibilities of the country conducted by an expert body at the same time as the proposals for the Industrial Bank take definite shape. This survey should be sufficiently comprehensive as to cover not only the immediate possibilities and scope of new industries which can be started, but also the extent to which the existing industries may profitably be expanded. Besides, the expert body would also investigate into the necessity of any existing industries being reorganised so as to keep pace with the modern requirements, though they will not be expected to go into the details of these re-organisation schemes.

The capital of the industrial bank will not be issued all at once. A fairly good amount would be open for subscription to begin with, and the approved amount of the debentures would be issued to meet further demands on the bank. When this limit is reached a further issue of shares might be made from the authorised capital, and corresponding amount of

debentures issued as and when required, at the same time disposing of as much of its holdings as possible in the open market. The resources of the bank would thus be augmented to suit the growth of the demand for financial help.

ORGANISATION.

The Industrial Corporation will be organised on a provincial basis. The nature and extent of the industrial possibilities will be revealed by the industrial survey proposed. According to opportunities of each province the corporation will be started.

To co-ordinate the activities and general investment policy of the Industrial Corporations in the provinces as also to help them in mobilising funds, an All India Industrial Board is advisable.

It will consist of some Government Members of the Industries and Finance Departments, representative high class business men from Banking, Finance and Industry and representatives of provincial Corporations.

The functions of the All India Board will be as follows:—

(1) To maintain a staff of experts whose services will be available to the provincial Corporations for examining schemes in connection with their investments in industries.

(2) To keep up to date the results of the Industrial survey by studies and researches conducted by the experts.

(3) To give suitable advice regarding the terms and conditions of issue of debentures of the Corporations. They may render such help as may be necessary to have the debentures subscribed.

(4) If necessary it will negotiate foreign loans for financing of the Corporations.

(5) To negotiate foreign or inland loans for financing industries of natural importance and requiring large capital such as ship building, etc.

(6) It will advise regarding the general policy to be followed by the provincial Corporation in investing in shares or debentures of industrial concerns, or underwriting or promoting their issues.

(7) It will generally advise the Corporations regarding the financial assistance they may render to industrial concerns with special reference to over-production or undue competition.

(8) To enquire into the organisation of the Indian industries and make any recommendations to them that would improve them in the light of experience in India and elsewhere.

(9) To advise the Government regarding the commercial and industrial education in India and to suggest necessary improvements, on the model of the W. S. A. Bureau.

(10) To formulate schemes for drawing out small savings for investment in industries and suggest means for popularising them.

CONCLUSION.

A financial institution like this and for the special purpose of industrial finance is necessary in a country which is in an early and initial stage of industrial development as compared with other countries of the world and in which there is no large and experienced investing public ready; but as circumstances change and as the private financial machinery of the nation develops and as the public become more experienced, its value may decrease and it is possible that its functions will cease or alter.

Chairman: We shall now begin with this paper of Mr Sarker's on industrial finance. It is unfortunate that he is not here but he will later on have an opportunity of seeing Dr. Jeidels' statement on his paper. Would you Lala Harkishen Lal prefer to make your remarks on this first. or will you wait till Dr. Jeidels has expressed himself?

Lala Harkishen Lal: I have looked at Mr. Sarker's paper. I might say that my remarks the other day were made from quite a different point of view. I was viewing it at the time from the point of view of the Reforms, the apportionment of functions in regard to industrial development between the Central and the Provincial Governments. The difficulty of appreciating it from Mr. Sarker's point of view is this. Banking regulation is a Central Subject, while Industries is a Provincial Subject. Before we can bring the two together, we have to examine the political situation. If the Government of India say they are not going to accept any functions with regard to industries, the scheme we shall recommend will be different from the scheme we should recommend if they were willing to take responsibility for industries. Also the word "Industries" has not in that way been defined. Mining, for instance, is no doubt in certain respects local; also electricity. But the railways are not local and the word "Industries" does not exclude the several industries which appertain to railways in connection with their construction and maintenance. There are dozens of industries which almost entirely are dependent on railway patronage.

Chairman: All I can tell you is that in the Government of India Act, in the Devolution Schedule, there was an entry that the Central Government may declare a particular industry to be a Central Subject. But that was so strongly objected to by the representatives of the Provinces and communities that it was deleted, and the resultant position emanating out of the desires of provincial representative is that Industries is wholly a Provincial Subject, and the Centre cannot in fact make any contribution from Central revenues for the development of industries in the provinces.

Lala Harkishen Lal: But they are doing it. There are the railways. The workshops have been re-organised and expanded under the Reforms

Chairman: That is true, but they belong to the railways and are not private or joint stock concerns.

Lala Harkishen Lal: It comes in this way. A railway can start a workshop of its own. Prior to that it obtained its requirements in that

direction either from abroad or locally in India. Well they do that, and they are excused on the ground that it is a railway. Then competition starts and in effect a death sentence is passed on those industries by the Government of India which previously supplied the needs which the workshop now caters for. If industries are wholly a Provincial Subject, how could they pass that sentence of death, either on account of railway or military requirements. Those two Departments are the greatest consumers of industrial products. Those are two Central Subjects and they are interfering with Industries which is a Provincial Subject. How can we work out any scheme which avoids that position?

Chairman: So long as it is in the constitution, you cannot.

Lala Harkishen Lal: If you cannot, then the time given to this matter now will be wasted. Suppose these experts do advise us, on the ground that industries are provincial, as to what action the provinces should take, and they cannot advise us as to the attitude the Government of India should adopt, then what is the good. Suppose they advise us, for instance, with regard to the Japanese Bank on the understanding that it is a Central Subject, and the Government of India afterwards says that that goes beyond their powers because it does not come within "Regulation of Banking", then the labour of the experts and our labour is gone for nothing, We can deal with this subject on three alternative hypotheses. One, by assuming that the industries appertaining to the railways and the military are also provincial subjects, or two, that certain industries are Central and certain others Provincial, or three, that all industries after a certain stage are Central. Then we can proceed, and we can say that if Government acts on the first hypothesis this is our scheme, if on the second then this scheme, and if on the third then yet another scheme. We cannot really make any useful proposal until that matter is settled.

Chairman: I see your point. It is really a question which will be decided under the new constitution in the framing of which the voice of the people of the country will play a large share.

Lala Harkishen Lal: We ought, therefore, to place before the Government or the public those three hypotheses and let them decide. The question I am concerned with is whether we are prepared to consider all those three hypotheses—I may say that I am not prepared for it to-day. If we are not going into all that detail and just leave it haphazard, I am afraid I shall not be of much use.

Chairman: Suppose we proceed on the basis of the position as it exists to-day, under which industries appertaining to railways or the military are Central, while all other industries are Provincial. That is the present position, and further, under the present constitution the Centre has the power of declaring a particular industry to be a Central industry. There is that reservation, though it was strongly objected to by the constitution makers at St. James Palace and their point was conceded.

Lala Harkishen Lal: That is all right, but really on that basis a very large section of industry will have to be excluded from provincial patronage. Can we proceed on the hypothesis that no other industry will be taken over and declared as Central?

Chairman: The only thing which has been declared Central under the present constitution is the Tata Iron and Steel industry, nothing else.

Lala Harkishen Lal: Let me illustrate my point. In the Punjab there are iron deposits—I have referred to this previously—and I have been told by the Canadian expert I mentioned that if those deposits are developed, they will astonish the world by their richness. He may be right or wrong, but let us accept that. A second factor is—I am only making a statement, I do not ask you to accept it—that Punjab labour is the most efficient in all India in regard to mechanical construction, etc. A third factor is that we have endless hydraulic power in the Punjab. We command seven rivers. Bearing those three factors in mind, suppose we make a recommendation that the Punjab Government should direct its attention to developing that industry, and suppose the Government of India say the next day that the iron and steel industry is mainly the concern of the railways and the military and we therefore declare it to be Central.

Chairman: They cannot do that. Even the present position is that they can only do that in consultation with the Provincial Government, and if the Provincial Government were to object, they could not do it.

Lala Harkishen Lal: Then the other question comes in. If we leave it to the Local Government we must say as a corollary to this that the Punjab Government should have the power and the resources to develop the industry, which means that they should have borrowing power apart from the Central borrowing power.

Chairman: They have the borrowing power now.

Lala Harkishen Lal: They have not, Sir.

Lala Harkishen Lal: I am told that Government secrets are not to be disclosed when you are out of office, but I might take the liberty of saying that in that matter we had to go not only to the Government of India but to several other parties. We had to visit Bombay, myself and the Finance Member of the time in the Punjab. We were told that though the Government of India might sanction the loan there were certain other people who might put spokes into the wheel, and those people were the Government of India as part of an establishment which deals with these things—not the part of the Government of India which sanctions them. And they said, we advise you not to attempt these things but to come to us. Well, we did not take that advice in that particular case because we felt we had gone too for, but there it was. I am not raising any political question. I am merely saying that it is a question which is not finally settled and one does not know in which way it will be settled. There are several authorities who can influence the Government of India, and the Government in England is against it. You and I know that. And knowing that we cannot proceed on one hypothesis only. We will have to argue on three hypotheses, as I have said, which I am not prepared to do to-day. If we proceed only on one then I think our time will be wasted.

Chairman: I see that. But your point really affects the classification section of Mr. Sarker's note. I quite see that classification will be affected.

Once you classify them into 3 different sections I fully agree that the items to be included in his classification (1) or classification (2) will be

altered. The classification will be altered according to your three alternative hypotheses, and therefore the classification may require amendment. Whether we shall be able to pursue the matter or not is a different question, because by the time we submit our report we shall not be able to know what is going to happen. That is pretty certain. That would be with any classification. Then we come to the rest of Mr. Sarker's scheme and I think the best thing would be to ask Dr. Jeidels to make his statement on Mr. Sarker's proposal.

Dr. Jeidels: Before doing so, I would like to hear how you, Mr. Chairman and you gentlemen, understand the last but one para. on page 1—"Provision for financing industries mentioned in class (2) will have to be made according to their requirements as indicated in classification II". Does it mean that this Industrial Corporation is meant particularly for Class II? I could not make it out.

Chairman: That looks like it. He is not here. Reading the paper, that is how it strikes me, because he does not mention anything about industries mentioned in classification (3)—Industries of more or less local importance of the nature of cottage industries requiring much smaller capital. Nowhere in his note can I find any statement as to how he proposes to deal with class (3) industries.

Dr. Jeidels: I think he did not wish to include class (3) in his Industrial Corporation.

Chairman: I think he had a discussion with you informally. As he did not discuss it with me even informally, you may be able to know more about his intentions.

Dr. Jeidels: It is not quite clear, but I think one may assume that he did not wish to include in this kind of finance No. (1) and No. (3), No. (1) being too big and No. (3) too small. Generally speaking, the paper contains many provisions which I think are very useful for any Corporation of this kind. What I miss is that in dealing with so large field of industry, which practically embraces all industries with the exception of Railways and Hydro-Electric schemes, he does not make it a condition that first of all some initial object should be found. If I suggest in my paper on Industrial Corporation that it should be confined to public utility companies and mining schemes, it was partly because they were undoubtedly non-competitive or almost non-competitive; and partly because in order to establish the reputation of such Industrial Corporation, one ought to start with something rather assured of success, avoiding the risk which naturally lies in such ventures as glass, pottery, electric goods, chemicals, etc. Whatever form of Industrial Corporation is eventually advocated. I strongly recommend not to start it, before a really sound and large object has been selected as initial undertaking. If it is desired to start an Industrial Corporation without that, then it seems to me the more preferable to do it on the lines which we have suggested, because on our line it is more likely to avoid losses which would at once discredit the idea. Such losses seem to me almost unavoidable with as broad a classification as this paper suggests. Mr. Sarker does not present a picture for his frame and and I think the picture is really essential. His picture frame is sketched with many clever and useful advices, but his paragraph 1 contains in my opinion a far too broad classification, to which I could not agree,

and I prefer decidedly to stick to that scope of activity of the Industrial Corporation which we have outlined in our memorandum. Mr. Sarker's scheme goes, as I said in a useful way into many details, which I suppose he means as a sort of non-legal bye-laws; such outlines have always to cover a larger ground than the actual requirements. It therefore contains a number of provisions which I would not favour in practice. For instance, his last paragraph on page 2, he provides that the Corporation should take long term deposits from the public; this may be feasible later on, when the Corporation is in successful operation, but to start with it right away would be a competition to the existing joint stock banks which I can, at this stage, not recommend. I have seen advertisements of the largest joint stock banks inviting deposits on a line similar to the postal certificates; while not objecting to this competition, I feel apprehension against one more organisation being started for such 3 to 5 year deposits. What he says about industrial survey is sound, and so is his suggestion of and All-India Industrial Board. This Board corresponds largely to what was discussed here. A roof company or an All-India Board, is probably the best way to give freedom of action independent of the constitutional regulation, which is always rather hard and stiff. Not speaking in a political sense I may say that whatever regulation will be made constitutionally about provincial affairs and central affairs with regard to industry, has to be adapted to actual needs. Just the private form makes the Industrial Corporation a useful instrument for practical propositions inside the limits of a constitution. That Industry is a provincial subject, this does not prevent the establisment of a "roof company" on the hoard of which representatives of the Central Government, may serve as directors.

Chairman: I may say that that practically represents broadly the ideas of the politically-minded people who congregated to discuss these matters. While they object strongly to any form of control from the centre, they welcome central co-ordination. That was the view that was expressed by practically everybody politically-minded. There were some who were economists also. I see that Mr. Sarker's mind is also turning in the same direction. Whether they were called communities or representatives of communities or representatives of provinces, they did not want any central control. But they did not object to central co-ordination. According to your ideas the central co-ordination machinery will consist of men from each province presided over by a man from the centre and in that connection, mention was made of some inter-State Commission which exists in the United States of America.

Dr. Jeidels: Principally for Railway-regulation.

Chairman: Railways were mentioned. Inland Waterways also.

Dr. Jeidels: As far as I know, it is confined to transportation. If you allow me to summarise my opinion on Mr. Sarker's paper in three observations, I can then answer questions put to me on the subject. First, the classification seems to me too wide unless there is definite agreement that for the procedure it is not applied; the first object should be an essential part of the entire scheme. Secondly, I recommend to embody most of the provisions into the legal forms of joint-stock companies, including those functions which are reserved to the All-India Board; giving the entire scheme as far as possible the character of private enterprise, which neither excludes financial participation nor administrative influence of Government,

provincial andcentral. Thirdly, the provisions of the paper about Organisation, (3) and (4) seem to me well formulated and could be adopted. I particularly endorse the recommendation that from the start foreign borrowing should only be done from one centre, All-India Board or "Roof Company", whatever central organisation may be chosen and would like this provision to be compulsory I may add that I consider the paper as valuable and interesting.

Chairman: There is only one particular question. I think I put it to you on a previous occasion and you answered it. The question is which would you prefer, as between starting a separate Industrial Corporation or Industrial Bank on the lines advocated by Mr. Sarker, and naving the work done by existing banks. Your answer was that you would prefer the work being done by existing banks.

Dr. Jeidels: If it refers to smaller matters. The Industrial Corporation has a larger scope.

Chairman: You would prefer a separate bank for that purpose?

Dr. Jeidels: A separate corporation.

Dr. Trip: Just as you advocated for public utilities.

Dr. Jeidels: The Industrial Corporation which we advocated compares with the Industrial Corporation of Mr. Sarker about as follows: We wished to proceed downward from some big and comparatively unrisky enterprise to other industrial ventures, when experience and confidence have been established. The German experience of state-owned joint stock companies, which however, always excluded the variety of industries, favoured by Mr. Sarker, had been among other considerations in our mind. There also the problem had to be solved, to apply private business methods to industrial activities of Government, and to bring the separation of provincial and central subjects in a practical shape. The German experience resulted in the formation of state-owned joint stock companies with "Roof or Apex-companies as comprehensive holding companies," and in the concentration on public utilities, on non-competitive industry, to which later and after the acquisition of sound experience, eventually one or the other enterprise from a broader field has been attached. I think that these lines of action present themselves for adoption in India.

Chairman: To that extent you disagree with Mr. Sarker?

Dr. Jeidels: To that extent I disagree with him. I do not think that in practice our views will be very far apart, if only the diversified programme of his "classification" is eliminated. He includes from the start too many subjects, too many from the point of view of risk, of competent management and of competition with existing industry. This is the main point of difference between his scheme and mine.

Chairman: Baring that, you see a good deal of useful constructive work in the rest of his scheme?

Dr. Jeidels: I think so. The experts have not discussed it among themselves. It would therefore be useful to ask whether the other gentlemen agree with my remarks.

Mr. Cassels: Speaking for myself, I agree on broad lines with Dr. Jeidels. I think his point is very well taken that there should not be—I won't say unfair but—unequal competition, and that it is bound to come on these smaller industries which are included in a more or less national scheme. Then I particularly like the idea that he has expressed that it is most important to secure the public interest and the public money in such ventures. These two points strike me as very attractive. Otherwise I quite agree with his remarks.

Dr. Trip: If I were to express my opinion very shortly, I would say that the scheme looks very attractive when reading from the theoretical point of view, but I am convinced that if such a scheme were put in action, it is bound to come to grief and to big losses. I am absolutely convinced that one can build up the industry of a country only slowly and coolly. If the country were to adopt a scheme like this, I foresee that all the provinces would try to build up an artificial building of an industrial kind, therefore I am convinced—I should like of course if such a scheme could be put into action in this country for the benefit of the country, but as a practical man I am convinced—that this scheme would lead to very big losses for the country.

Mr. Currie: I agree entirely with Dr. Trip.

Dr. Jeidels: The remarks of my colleagues are not in contradiction with the views I expressed. They only point in stronger terms to the risk. I would suggest to my colleagues that the discussion of this paper of Mr. Sarker should be no reason for us to alter our written recommendations with regard to an Industrial Corporation.

Dr. Trip: Yes.

Dr. Jeidels: Our recommendation for an Industrial Corporation as outlined in our memorandum, is therefooe not to be replaced by Mr. Sarker's paper with side remarks from us attached. We would like to see our suggestion stand as submitted.

Dr. Trip: Yes, if you restrict the operations of that Corporation to public utilities and mining and general pioneer work.

Chairman: Dr. Jeidels objects to the operations of this Industrial Corporation, outlined in Mr. Sarker's scheme, being extended to all the industries mentioned in classification (2). If its operations were made of a more limited character, and confined mostly to the industries mentioned in your memorandum, then Dr. Jeidels would not rule out an experiment with one industry outside the various items mentioned in the paper. That may be the only point of disagreement between him and you all. Dr. Jeidels made it clear that he thinks that if the Industrial Bank were to tackle all these various classes of industries from the beginning, there would be very great risk.....

Dr. Jeidels: Yes.

Chairman: And that he would prefer the Industrial Corporation to confine its operations to the industries mentioned in your paper. I call it your paper. I think that is a joint paper. At the same time he said he would not object to that Industrial Corporation taking up a single industry outside the group mentioned by him and if it were not a non-competitive industry—I think he laid stress on that—trying to foster that one industry. But he would not take too many risks.

Dr. Jeidels: Yes.

Chairman: Do you, gentlemen, go further and say that it should under no circumstances even make an experiment with a single non-competitive industry outside the categories mentioned in your paper? That would be the only point of difference.

Dr. Trip: I should not go so far as that. You should always have room for pioneer work. If Government see great possibilities in a certain industry and if it wants to start that industry in this country and makes this Corporation tackle that industry specially, I should have no objection.

Mr. Currie: That is more or less my view. If you make any exception outside public utility companies, you are letting trouble for the Corporation with everybody.

Chairman: That danger was referred to by Dr. Jeidels; I am supposing that the Industrial Corporation is strong enough to face that danger. Would you still see objection?

Mr. Currie: I think I can withdraw my objection. But I should not like it very much.

Mr. MacDougall: My position in a nutshell is this. I entirely agree with the interpretation which Dr. Jeidels and Dr. Trip have outlined.

Dr. Freiderich: I agree with the remarks of Dr. Jeidels.

Mr. MacDougal: I think there can be no possible doubt that whenever it has been attempted by any Government, East or West, to interfere in these matters, more loss than profit has been the result. I think that is the experience of the West and the East, and it would be specially dangerous in a country that is not so well developed industrially as either Germany or England.

Chairman: You have referred to the experience of other countries. Unfortunately, what we have been able to gather about Japan shows that that has not been her experience. She started with the Industrial Bank and according to all reports, this enabled her to establish a large number of industries which were not there, when the Bank was established. If you confine yourself to the experience of the West. I have nothing to say, But when you bring in the East, we shall have to examine your contention in the light of whatever material we have been able to collect with regard to developments in Japan.

Mr. MacDougall: Then I must withdraw my views with regard to the East.

Dr. Trip: It is of course quite true that Japan has most admirably built up her industry, but nobody knows what sacrifices have been made by Japan to do that. I can only tell you my impression, because I have not been in Japan. The general impression in the Dutch East Indies is that they have sustained very heavy losses.

Chairman: That is not conclusive, because if the people of India are willing to submit themselves to similar sacrifices, the force of that point disappears, and that was the reason why I wanted to correct Mr. MacDougall.

Dr. Trip: The question in my view is whether it would not have been better for Japan to go more slowly than they did. They did it at a very quick pace and I am convinced that they sustained very big losses and it would have been better if they had done it a bit slower and followed the way we had followed.

Chairman: That is your personal opinion?—Yes.

Dr. Jeidels, have you anything more to say on this paper?—No. But as it is my last attendance at your meetings, I would like to give the consultation a practical turn by suggesting to consider the possibility of starting the Industrial Corporation, with one of the hydro-electric power schemes in course of construction or already in operation in the Punjab or the Madras Presidency.

Chairman: But then we shall probably be accused of going beyond our province. The Punjab has got a hydro-electric scheme of its own. The matter has formed the subject of enquiry by another committee on which a prominent Indian business man presided and the Punjab Government is free to take such action as it may desire to take with reference to the advice of that Committee.

Lala Harkishen Lal: It is not a private concern, it is entirely Government concern.

Chairman: The United Provinces has got its own hydro-electric scheme also, but it is also a Government concern and you must remember that there is a paper safeguard which is a vote of the members of the Legislative Council who provided the money. The same applies to Madras. Therefore the illustration which you wanted to place before us is not very apposite. These are absolutely the concern of the provincial Governments concerned, and if they are wasting the money of their taxpayers, they are doing so on the vote of the provincial Legislative Councils. There may be disagreements, but unless and until there is a vote in favour of the scheme and the money is voted, no progress is possible.

Dr. Jeidels: I think I did not make myself quite clear. My suggestion was to transfer inside of the province the enterprises mentioned into joint stock companies with 100 per cent. ownership of the province. Supposing such joint stock company having two crores of share capital belonging entirely to the province, it would try the experiment of issuing a debenture loan for this first Industrial Corporation.

Chairman: I quite see your point, but I doubt whether my Committee would at all like to touch on those matters, because as soon as we come to that, we are up against the much bigger proposition of nationalisation—a proposition which certainly in recent years has come into prominence in

connection with our railways. It raises another question of policy which, as I have said, I should not like my committee to touch—100 per cent. of the shares would belong to the province.

Chairman: Instead of being the property of the taxpayers as a whole who get the profits or the losses, it is handed over to a capitalistic body. The capital itself may have come from within the province, but it ceases to belong to the people of the province. It is a much bigger question—Similar objections were raised in my country in the Free State of Prussia which has been very active in building up a net of electric power supply, coal mines, etc. When these public utilities were transferred for the purposes which I previously explained to a company in which 100 per cent. of the shares were held by the State, the Legislature passed a law that no shares should be disposed of without the consent of Parliament, as a safeguard that the private form of organisation should not interfere with the full state ownership

Chairman: There again it may have some relation to the actual form of Government, in Germany at the present moment but broadly speaking even with restrictions of that sort, it ceases to be the property of the people of that province. It is handed over to a capitalistic concern which may manage it better or may not. It is a question I do not intend to discuss. It may be that by legislation you may provide that profits beyond a certain limit must pass into the coffers of the province and in that way give participation to the people of the province in the profits. But these I am afraid, are matters outside the province of this Committee. As it is, I gave you the prominent example of the railways, a decision in connection with which was arrived at on the recommendations of a Committee which was not unanimous and on which the Vice-Chairman of my Committee sat. I have listened to numerous discussions on this question in the Legislative Assembly. The real point is nationalisation *versus* ownership by a capitalistic concern. Even in England at the present moment there is a strong demand for the nationalisation of railways. Mr. Currie, Mr. Cassels or Mr. MacDougall may not agree with that proposition, but there is a strong feeling and a decision on that point will not depend on the advice of bankers or on the advice of businessmen but, if I may say so, on the demand of the people—Mr. MacDougall: It is not a demand that is growing.

I do not know, but I have heard of the demand. You may say it is not growing, but if we had here some labour members of the British Parliament, they would say that it is growing. Those are matters on which a Committee on Banking can hardly buttin.—Dr. Jeidels: I am quite satisfied with having offered the suggestion and explained a possible method of procedure.

Mr. Manu Subedar: You recommended that the Imperial Bank should, in anticipation of its doing industrial financing and industrial banking, try to collect information and survey the field a little. Is not that so?—Yes.

Mr. Manu Subedar: I would like to ask whether any of you have been able to have a look at the Industrial Commission's Report and the various reports of Industrial Survey in different provinces as well as the reports issued annually by Directors of Industries in various provinces. These contain an enormous amount of material. Apart from that material which emanates from various Chambers of Commerce, there may be material in

possession of private firms which is not known at the present moment but which would immediately be directed into a single channel the moment an all-India Corporation with wider functions than what you have said is established. Has your attention been drawn to this?—Dr. Jeidels: As far as I am concerned, I have not fully read, but studied a great deal of the report of the Industrial Commission; we have also had the opportunity of discussing the problem in one of the provinces, where the Department seems to be very well organised. Of course we have not made an Industrial Survey of India. If I suggested an Industrial Research Department for the Imperial Bank, I had in mind that a bank as a private business enterprise selects industrial objects more on the line of practical possibilities than as a general survey. I would therefore like to let this suggestion about the Imperial Bank's Industrial Research Department stand independently of similar governmental organisations.

Mr. Manu Subedar: I would supplement what I have said by adding that every Indian State has considerable information as to the resources in the State and as to the possibilities of development and much useful material is available, though it is not yet definitely examined from the point of view of practical industrial finance—It is no doubt, very valuable material.

Dr. Hyder: Take the case of the U. P. Government hydro-electric scheme. I do not know if the capital remains with the people of the province. I should like to understand how you get your idea of business management—It is a step in the business direction.

I want to know how you graft on private management to such a scheme.

Chairman: As has been done in the case of the Railways, a managing company is brought in.

Dr. Hyder: In the case of a managing company, the company owns the capital.

Chairman: I am not talking of private companies. I was referring to the East Indian Railway after acquisition, when it was managed by the Company. All that the Company used to have was a share of the surplus profits.

Dr. Hyder: If I am not wrong, I think they had some unredeemed capital also.

Chairman: They were allowed to raise debentures outside the borrowing of the Government of India, but those debentures really became State loans. They did not possess any part of the property, the property became the property of the Government of India. They were managing companies and the three classes of distinction were well known, *viz*:—

Owned by companies and managed by companies;

Owned by the State and managed by the companies;

Owned by the State and managed by the State.

Dr. Jeidels' proposition would refer to the second class, but from the nationalisation point of view, I am simply talking with reference to my recollection of debates in the Legislative Assembly. Again, there is the labour point of view. A company might not look after the interests of the labour employed in the business as a National Government would do.

Dr. Hyder: These are very important points. The desire remains supreme in my mind to introduce the idea of business management into a Government department, but I want to know whether there is no other way—Dr. Jeidels: There is among others the method tried with the German State Railways, the German railway company is a managing company with a capital of 900 crores; it has a managing contract with Government for sixty years, but the property belongs to Government.

Chairman: Your Company would also own a part of the property and would be a joint stock company—Yes.

Dr. Hyder: You have not the idea in your mind of part ownership of capital by the company?—There is also the possibility of part-ownership by Government. My suggestions are on the basis of full government ownership of the share capital, as I had only in mind to insert an element of business management through the form of a joint stock company.

Chairman: But while the joint stock company would own 100 per cent. of the capital of the concern, would it own 100 per cent. of the capital of the company?

Dr. Hyder: My point is different. 100 per cent. full ownership should be in the hands of the Government.

Lala Harkishen Lal: The U. P. Government is in many cases the proprietor of canals and waterfalls. The machinery for producing electricity belongs only in some cases to the Government, in other cases it belongs to the Government and the electricity is sold to the company rather than to individuals.—Dr. Jeidels: It is the distributing part.

Lala Harkishen Lal: In U. P. they start from various stages. Water supply stage up to machinery, distribution is outside, sometimes distribution is up to a certain limit, up to the bulk supply it belongs to Government and private distribution belongs to the company.

Dr. Hyder: This is one form. I would like to know whether you can give us any hints as regards introducing a live business management into a Government department on the clear understanding that the ownership of the capital remains in the hands of the department on behalf of the peopleffiI can only say that for the purpose in question no better form has been found than the transfer to a joint stock company with 100 per cent. Government ownership.

Of course much would depend upon the efficiency of our Municipal Government. You include public utility schemes in your classification. The point is whether the distribution of electricity should not be undertaken by our municipal towns as part of municipal activity.—That the industrial development of this country came comparatively late is fortunate in the sense that she can use the experience of Western countries which generally started small generating electric appliances; to replace them by large central power stations created all kind of economic and political difficulties. The distributing part is a favourable field for municipal activity owing to the better local access to the public.

What would you say to the policy of Government producing current and then handing it over to a private company for supply?—I am not in favour of it; I would prefer that for certain districts it sells the current to a district distributing organisation, whether a joint stock company or municipal enterprise.

Mr. Manu Subedar: I would like to ask you one question arising out of Dr. Hyder's question. Assume there is a Government department with total ownership of a certain asset and that department is run in a manner which from the point of view of businessmen makes colossal mistakes, the sort of mistakes which would prevent its raising finance in the open market specially for that department. Of course on Government credit you can raise any amount of money. But if credit has to be raised on its own grouping, it would find very great difficulty on account of the business making mistakes.—The private joint stock company would act as a sort of sieve.

Mr. Manu Subedar: Let me give you a specific example. I do not want to reflect on any body. We have the Railway Board here managing very large railways in India. It is notorious that they have made several mistakes which businessmen would not make.

Chairman: It is according to you.

Mr. Manu Subedar: According to me. There is no businessman in that Board. They have to make very large purchases and they have to engage in business operations of various kinds and in our opinion there is not a single qualified businessman.

Chairman: In your opinion, not in 'our' opinion.

Mr. Manu Subedar: If the Railway Board came out in the open for credit, do you think their credit would be affected if the management was purely a departmental management and not a business management? All the departmental mistakes are covered up by Government credit. If it was a business management, their credit would be better?—A joint stock company with business management would most likely have an educative influence, because it has to depend more on the confidence of the public.

Apart from the joint stock managing company, have you any experience of associating business management with a State-owned enterprise?—I could tell you some, but it is a wide field, requiring more time than, I am afraid, is available.

Chairman: I think it is hardly necessary to pursue it. The question of State *versus* Company management of a Government concern is not within the purview of our terms of reference and that being so, there is no point in pursuing it. Mr. Subedar may have his views, I may have mine which may or may not agree with his, but even if he were to agree, I know the views which have been expressed in the Legislative Assembly of the country. There are various aspects of it, not only the provision of capital, but the interests of labour, etc., and that being so, it opens a much bigger field than this Committee is entitled to discuss.

Chairman: There is one point that Dr. Hyder was referring to. Even under your managing company, that company must be allowed to hold some portion of the shares; otherwise how would the company come into existence. That is why he referred to the case of the East Indian Railway.

Though the property was the property of the Government they were given a certain number of shares so that they could form a joint stock company and take over the management. That will be the same under your arrangement. When you say that 100 per cent. of the capital would belong to the U. P. Government, if that were so, the joint stock company could not be formed.

Dr. Jeidels: Practically 100 per cent. should be sufficient.

Chairman: They might be allowed to have even one per cent. of the capital. That is what we did in the case of the railways.

Ch. Mukhtar Singh: The law on the subject may be changed.

Chairman: It is impossible to change the company law. How can a company without capital and therefore without any interest in the efficiency of the management manage the concern?

Ch. Mukhtar Singh: It starts with the idea that the private people would do it much better. That is why they come in.

Chairman: When he speaks of privately managed concern, naturally he wants to hand it over to a joint stock company. A joint stock company having in view the interests of its shareholders would manage it more efficiently than a Government Department whose shareholders are the general public and they have not got the same means of getting at these representatives as the shareholders of a joint stock company have got; and therefore his proposition must be fundamentally based on the idea that the joint stock company should possess a share—it may be a very small share of the capital concerned.

Mr. Devadhar: You refer to two aspects of solution of this problem, Government effort as well as private effort, and you are more in favour of private effort being initiated.

Dr. Jeidels: Generally speaking and for this industrial business, yes.

Mr. Devadhar: Dr. Trip suggested that there is always the risk of some kind of loss in the beginning. Out of these two which form would you prefer, the sacrifice being common, the loss being inevitable, whether Government or private agency or a joint stock company should do it.

In any case effort has got to be made and experiments have got to be made.

Dr. Jeidels: A private agency would probably tackle the problem differently from Government, it would start smaller, built up slowly and will be more careful to avoid loss.

Mr. Devadhar: That is why you favour the big schemes of the Punjab and the U. P.

Dr. Jeidels: That is why I favour large schemes, particularly public utilities, because there the risk of starting on a large scale is not as great as in commercial industries.

Mr. Devadhar: What would be your view in the case of small industries which do not come within the range of public utilities?

Dr. Jeidels: I have no new suggestion to offer.

Mr. Devadhar: What about large industrial concerns?

Dr. Jeidels: I would refer to private initiative for large and to the urban co-operative movement for small industries.

Mr. Devadhar: Is the supply of pure milk included in public utility schemes?

Dr. Jeidels: It belongs to the co-operative field.

Dr. Hyder: You must remember Nuremburg?

Mr. Jeidels: You refer to Municipal distribution, which is a most diversified field of activity.

Chairman: I do not think that is likely to lead us to any profitable conclusion.

Mr. Devadhar: Cotton, sugar and other things are mentioned.

Chairman: Dr. Jeidels does not accept Mr. Sarker's list; Lalaji either does not accept it. Let us discuss it among ourselves.

This discussion is now finished and we now come to foreign exchange banks. Before Mr. Subedar starts again, I have looked up my notes on the question of licensing. At that stage I said that there were two countries in which licensing prevails—Canada and Japan. Mr. Cassels comes from Canada and I asked him whether it would be possible for him to tell us why this system of licensing was started in Canada and why it is still maintained. He was good enough to tell me that he would reply later on. Will you be able to let me know now or later?

Mr. Cassels: I think the answer is very simple one. The fact is that Canadian Banks have a right of note issue and, therefore, it is necessary to have some regulation. That is really done by the question of note issue being overlooked by the Canadian Banks' Association.

Chairman: The only other question is this. In the course of the discussion it has been brought out that licensing may not be desirable and that the objective might be gained by some action on the part of the Reserve Bank. Supposing the business of licensing was handed over to the Reserve Bank, would there be any objection to that, because then licensing would more or less correspond to the grant or withdrawal of that particular privilege.

Dr. Trip: Practically speaking, it would come, in my opinion, to the same effect. It is only a question whether Government would give such a big power to what is after all a private bank. It is not a commercial bank. In any case in our country the Reserve Bank is a shareholders' bank. From the practical point, every bank, every joint stock company, is absolutely free to start a bank, but whether the Reserve Bank is prepared to work with them is a question to be decided by the Reserve Bank. That is more a question of considering the soundness, the position of the new bank, than considering whether a country needs another bank.

Chairman: There are various aspects, but the soundness is undoubtedly one. Mr. Subedar at that stage brought out the interest of the depositor in the bank. The question of the Taiwan Bank was mentioned, though he did not know the facts and Mr. Buckley had to correct. Still there is an apprehension.

Mr. Manu Subedar: I do not think that remark is justified. I knew the facts.

Chairman: Mr. Buckley brought out the fact that no depositor in India actually lost by the shutting down of the Taiwan Bank.

Mr. Manu Subedar. Mr. Buckley thought that I said that they lost. But I was quite clear and said there were difficulties for the depositors and my not knowing the facts corrected by Mr. Buckley does not arise.

Chairman: People might lose. That was the point. The bank might have been an unsound bank and therefore, license might protect the interest of the depositors. Now, I take it that in Java the Reserve Bank could exercise that sort of supervision?

Dr. Trip: Yes.

Chairman: Therefore, if the Reserve Bank were the authority to issue the license, from the practical point of view there would be no objection, though theoreticalley there might be objection.

Dr. Trip: Mr. Cassels points out that if they have in practice the power to decide whether a new bank will come in or whether the banks working in the country are sound, there is no necessity for a form of license given by the Reserve Bank, as in practice it comes to the same thing. I am of opinion that in practice it comes to the same thing. It is only a question whether they should be given the formal power to grant licenses.

Chairman: Could you tell me what your objection is to the grant of the formal power?

Dr. Trip: I always have the impression that a license covers a larger field than in practice the Reserve Bank covers at the moment. If you take it that the Reserve Bank cannot refuse a license, except on the ground of unsound business organisation, then I see no objection.

Chairman: So far as I can make out, the point of your objection is to a codification of a practice. You do not object to the practice, but you object to the codification of it.

Dr. Trip: Yes.

Mr. Manu Subedar: Mr. Cassels, you have 3 branches in the United States?

Mr. Cassels: We have a branch at Chicago, an agency in New York, and we have another institution which we own in San Francisco. There is another branch at . . . .

Mr. Manu Subedar: In which of these branches do you receive deposits and in which you do not?

Mr. Cassels: They are all in different States and every State has a different law. There is no Federal law controlling foreign banks in the United States. In the State of New York we are not allowed to take deposits from residents of the State; we take from non-residents. In Chicago I believe we can take deposits from anybody. We have a branch in San Francisco and under the law it can do any banking business. A Californian Corporation.

Mr. Manu Subedar: You own the majority of the interest?

Mr. Cassels: All the shares.

Mr. Manu Subedar: And naturally being a Californian Corporation, they are free to do all kinds of business?

Mr. Cassels: They are free to do what business they can in California.

Mr. Manu Subedar: In New York where you cannot take deposits, you still do banking business there, lending business?

Mr. Cassels: Yes.

Mr. Manu Subedar: You find the funds for that purpose from outside New York?

Mr. Cassels: From outside the country.

Mr. Manu Subedar: Is it largely from your Canadian resources?

Mr. Cassels: Yes, practically altogether.

Mr. Manu Subedar: Don't you find it impracticable to have to send money from Canada and to do business in New York?

Mr. Cassels: Not the least. It is only a night's journey.

Mr. Manu Subedar: You would not keep a branch there unless it was profitable. There is no sentimental consideration in going to New York?

Mr. Cassels: No sentimental consideration.

Mr. Manu Subedar: Dr. Jeidels, may I invite your attention to the last paragraph on Foreign exchange business. You say an Indian institution would in practice not be able to concentrate on foreign exchange business and would have to encroach upon the field of other Indian banks.

Dr. Jeidels: By concentrate, I mean limit itself to foreign exchange business.

Mr. Manu Subedar: The other foreign banks which are established now are also not able to concentrate on foreign exchange business and are doing other kinds of business?

Dr. Jeidels: Yes.

Mr. Manu Subedar: To that extent they compete?

Dr. Jeidels: Yes.

Mr. Manu Subedar: Would you call it encroaching on the field of other Indian banks?

Dr. Jeidels: Yes.

Mr. Manu Subedar: If an Indian bank is established with the intention of doing foreign exchange business, it would not be very different from the existing 18 foreign banks. It would be the 19th bank of its kind?

Dr. Jeidels: Yes.

Mr. Manu Subedar: Is there any difference, except that the head office will be in India.

Dr. Jeidels: There is perhaps a slight difference, not a very important one.

Mr. Manu Subedar: From this point of view there would be no difference. It would do foreign exchange as well as other business?

Dr. Jeidels: Yes.

Mr. Manu Subedar: I invite your attention to para. 3 on page 2. You say "There is the criticism that foreign banks by their competition render the development of national banking institutions more difficult". Then you reply to the criticism "That they are strong competitors and it is very doubtful whether Indian banks could replace the foreign banks considering the large capital and international connections of the latter. This very strong position of the foreign banks, as it is today, is likely to remain on the same basis for a long time".

Dr. Jeidels: I suppose so.

Mr. Manu Subedar: Therefore when you say in the last paragraph that the experts see no objection to a new Indian bank of such a nature coming into existence with private initiative and capital, do you expect such an institution, if established in India, to succeed, or do you expect it to meet with very great difficulties?

Dr. Jeidels: If it is strongly supported by customers, the merchants of the country, I do not think I am entitled to say that a bank of that kind could not succeed.

Mr. Manu Subedar: But some of the foreign banks have very large resources and they have all got international connections. The Indian institution would to this extent be at a disadvantage.

Dr. Jeidels: I have only said that it is doubtful that the Indian institution could replace them. If a new bank is started, sufficiently strong, and supported by customers, there is no reason why it should not be a success; at least one cannot say that it will not be a success; one cannot and ought not to pronounce death sentence over a new business enterprise of this kind.

Mr. Manu Subedar: You have said that foreign corporations render the development of Indian institutions more difficult. Would you indicate to us in what directions preference should be given?

Dr. Jeidels: I would not give Indian institutions any legal preference. But I think it is only natural that the national sentiment cultivates their own banks with the result that of the additional business which is bound to come, in this country as in every other country, a comparatively large part goes to Indian banks.

Mr. Manu Subedar: What have you in your mind when you mention legal preference?

Dr. Jeidels: Anything whatsoever.

Mr. Manu Subedar: According to opinions held in this country, foreign corporations compete with the established joint stock banks and prevent the growth of further joint stock banks. That is one established opinion in this country; and the other opinion is that the very strong position of the foreign corporations prevents the establishment of Indian corporations intending particularly to do foreign exchange business. Indian opinion thinks that it is in these two directions that the competition of the foreign corporations is very serious and that in order to assist Indian institutions something should be done. Is your reply that nothing legal should be done in both directions?

Dr. Jeidels: Yes, in both directions.

Mr. Manu Subedar: If nothing legal is done, do you anticipate any period of time when something legal might be done in order to expedite the process?

Dr. Jeidels: I do not believe in any legal measure to that effect; it would do more harm than good to the commerce of the country.

Mr. Manu Subedar: You say on page 3, item 1 that experts do not for the present recommend any restriction on such competition. When you say "for the present", would you kindly tell the committee at which period of time and under what circumstances you would consider restrictions should be put?

Dr. Jeidels: Under the present circumstances we do not recommend it, which means under all circumstances known to us.

Mr. Manu Subedar: In what direction would you expect the circumstances to change before you would recommend some interference?

Dr. Jeidels: I do not look forward to a change.

Mr. Manu Subedar: I would invite your attention then to paragraph 2, page 3, where you say that the amount of deposits which these people keep does not constitute an undue preference of private deposits. When would you think the time was ripe for interference? If they took what additional amounts would you recommend interference? Supposing they took 50 per cent. instead of 33, would you then say that the danger signal was up?

Dr. Jeidels: If the tendency of the last 10 years continues more or less, which means that they do not increase their share essentially, then I think the situation will be the same as at present.

Mr. Manu Subedar: But suppose the tendency is for increased money to go into their hands?

Dr. Jeidels: In order to give an opinion I would have to investigate the reasons for the change which has taken place.

Mr. Manu Subedar: But under those circumstances would you think that something would have to be done?

Dr. Jeidels: It depends on the reasons for the change in development; they would have to be investigated.

Mr. Manu Subedar: Supposing by their competition or for other reasons a few Indian banks went under and their deposits increased to let us say 50 per cent. of the total?

Dr. Jeidels: One would have to see the actual reasons. It is not possible for me to envisage those circumstances, because they have not existed during the last 10 years. During the last 10 years there has been no tendency in the direction of taking away the deposit business from other banks.

Mr. Manu Subedar: During the next ten years we may not have the very valuable assistance which we are getting at the present moment. In your opinion as at present would you think 50, 60, 70 per cent of the Indian banking deposits going into their hands a danger signal or would you not even then interfere?

Dr. Jeidels: I have said that one would have to investigate the reasons. If there is a tendency of a permanent increase of the deposits of foreign banks to the disadvantage of the Indian banks, then it would call for full attention.

Mr. Manu Subedar: And further measures?

Dr. Jeidels: Probably further measures, after the situation has been properly investigated as to the reasons for this development.

Mr. Manu Subedar: If the reasons became dangerous, you would then say that the mere considerations of efficiency and banking facilities would not apply and that the national policy would then come in

Dr. Jeidels: I do not think so. National policy is a very important factor, which we have investigated in the memorandum.

Mr. Chairman: May I say that I have not the least intention of cutting Mr. Subedar's questions short, as they are very interesting, but I have accepted an official invitation at 1-30 p.m.—The paper on foreign trade finance and foreign exchange banks has been made up by all of us, and I do not think that after yesterday's full discussion I have any special information to offer, which the other experts could not supply as well.

Mr. Cassels: We share the views you have expressed so far.

Dr. Jeidels: Therefore, if there are further questions in connection with the paper, they can be put in my absence.

Chairman: As it is, Mr. Subedar has got two more minutes and my intention was to give him those two minutes.

May I take it, Mr. Subedar, that you do not want to ask Dr. Jeidels any more questions?

Mr. Manu Subedar: I do not.

Chairman: You wanted to make a statement at the end. Will you please do so now?

Dr. Jeidels: I have written it down and gave it to you, Mr. Chairman. It is quite short and perhaps I had better read it. I have not given it to the Secretary for circulation because it contains only a few remarks, which I felt I should add and which are entirely personal; the other experts do not share in the responsibility for them.

(Dr. Jeidels then read out the statement.)

"If I am allowed to make a few concluding personal remarks avoiding as much as possible to repeat my written and verbal statements, I feel that the picture which I tried to give, would be incomplete without the following observations:—

Banking, large industry, investment—and capital-market resemble in this country, more than in others which I know by experience, the summit, not to say surface of a mountain which is at present only sparsely penetrated by modern banking and industry. In my opinion, it is not so much deficiency of monetary, banking or industrial institutions, what accounts for it, but the nature of the mountain on which the edifice is built. Banks and industries can mutually help their progress by better co-operation, for which some suggestions have been made by us. It will, in my opinion, lead by and by to self-managed industry in larger units and to an improved investment-market. Inside of banking, co-operation will raise the standard and create links between the various kinds of banking including the old and valuable elements of indigenous banking. This co-operation will have to be crowned, as soon as possible, by a Central Banking Institution, the contemplated Reserve Bank. It is not only necessary for the imminent functions of a Central Banking Institution for currency but also for improvement and enlargement of banking throughout the country.

The essential progress has, however, to come from the economic body, on which this whole structure is ultimately based from the agricultural community. Rural credit in India inspite of the efforts of the Co-operative Movement whose ultimate success and blessings are for me beyond doubt, seems to me to be essentially the field of the money-lender. The money-lender is also the financial agency for that part of the population which will increase in importance with the natural development of industry; the

industrial workman. It is a purely personal opinion which I feel obliged to express, before finishing my job, and which may not at all be shared by the other experts who are not responsible for these observations:—

Money-lending, in the sense in which it is used in India, is in itself a legitimate instrument of credit, but if money-lending is done at excessive rates, with hard pressure upon the debtor and with the effect of an ever increasing indebtedness of the agricultural class and the industrial labourer, then it becomes a danger to the country. On the improvement of the lot of the small agriculturists and the industrial workman depends productivity and purchasing power; it therefore determines the future also of industry and banking. My knowledge of conditions is, no doubt, incomplete but it is my conviction that protection of the borrower is essential for the economic welfare of the country. While it is conceivable that the profession of the money-lender can eventually become a useful link in the credit system, I do not think it possible without a pressure upon those money-lenders who abuse their economic strength and the weakness of the borrower.

Being aware of the obvious objections against a regulation which is not enforced, I do not advocate criminal anti-usury law. I propose civil legislation on the following line:—

1. Contracts providing a higher rate of interest than $1\frac{1}{4}$ per cent. for the first say 3 on 6 months and $1\frac{1}{2}$ per cent. per month for the following months, are only valid up to the maximum rate of interest. The borrower can refuse at maturity to pay a higher rate than the legal maximum.
2. The borrower who has paid a higher rate of interest, is entitled during ten years to recover by law-suit, for which a simple procedure is to be devised, all interest paid above 1 per cent. per month.

I am not in doubt that this legislation would not have a great immediate effect, but its efficiency would progressively grow with successful efforts of ever more borrowers who either refuse to pay or recover excessive interest paid. To meet evasion in form of commission or other practices, may be left to courts.

It cannot be expected that the abuse of money-lending being a curse of the country since ages, can be expelled by a miraculous remedy and I do not consider myself as sufficiently competent to dispute arguments against my suggestion. But it seems to me to avoid some defects of other measures. To deprive money-lending of part of its attraction by creating a permanent legal uncertainty to illegitimate lending, would perhaps help to open one of the two resources to which the investment habit has at present no access: private money-lending and monetary hoarding. And it would be, if I may add this without trespassing a step in the direction of justice and state consciousness."

Dr. Jeidels: I felt that I should submit these short remarks, as I think it would be incomplete to speak about banking and credit without adding some observations on money-lending. They are purely personal and I put them on the table with all possible modesty.

Chairman: Of course it will receive due consideration on our part in connection with rural finance and we will probably have to discuss the matter with Mr. MacDougall and Dr. Friederich. I will only make one

observation. In one Indian State they have a Money-lenders' Act which limits the rate of interest to 12 per cent. per annum, but I have heard that the legislation is more or less ineffective. However, that is another matter. It is all very well to make civil or criminal offences; it is another to give effect even in a moderate degree to legislation of that character. There is no time left to discuss the matter with you; we will probably discuss it with the co-operative experts, and we have a certain amount of information in our possession on the subject.

Dr. Jeidels, on behalf of the Committee and on my own behalf. I thank you very much for the kind assistance and advice you have given us. It may be or it may not be—I hope it will not be—that we will find ourselves unable to agree with you in all matters on which you, on behalf of your colleagues, have placed before us certain views; but that, of course, is perhaps inevitable. People are bound to differ, but it does not mean that we in any way possess other than the warmest feelings towards you. You have given us the best of assistance and the best of advice according to your own views and for that I thank you heartily on my own behalf and on behalf of my Committee.

Dr. Jeidels: Mr. Chairman, permit me to thank you most sincerely for your kind words. I can only say that the feelings which you were good enough to express are fully reciprocated by me. I am quite aware that advice given does not mean that the advice is accepted, not even that it can be accepted; but advice ought to be given dispassionately, based on a thorough survey of conditions and in a benevolent spirit, with the intention of giving assistance and doing a service to the country. If such advice does not contain any miraculous remedy or suggestion, just such frank abstaining from very original and very far-reaching schemes may under the circumstances be rather useful. My colleagues will continue this work and be in a position later on to sum up what we have said and what we have heard. I have tried to give you the best I could, and nobody can regret more than I do that the time is so short. I thank you sincerely particularly you, Mr. Chairman, for having given me this chance of a free discussion. I thank also the members of the Committee who by their clever questions have given me an opportunity to explain and to clarify as much as possible. And I wish to add a confession. I came to your country greatly interested in all its problems, with much curiosity to see and to learn. I can say that I leave the country more interested than ever and in addition with strong sympathy and with deep love for India.

Chairman: Thank you very much for the sentiments you have expressed.

9th February 1931.

THE MONEY MARKET IN INDIA.

(By Dr. L. J. A. Trip.)

According to the unanimous opinion of all who have expressed their views on the subject, the Indian money market shows several defects. It cannot be compared with the highly developed money markets in western countries.

As a matter of fact, two money markets exist in India, the Central Money-Market and the Bazaar Money-Market. They have their own agencies and different rates of interest without sufficient co-ordination.

The Central money-market is to a large extent dominated by the Government, which controls the currency and exercises a decisive influence on the bank rate.

The control of currency and of credit in India is in the hands of two distinct authorities, the Central Government and the Imperial Bank. This system results in a serious lack of elasticity and stability of monetary conditions; the fact that the annual range of interest rates in India is wider than in other countries proves the defects of the present system. A range of 3 per cent. is quite ordinary in India, and this must have a detrimental effect on the economic life of the country.

It seems to have been accepted as an axiom that seasonal monetary stringency is inevitable and that this stringency must bring about such wide ranges of interest rates as are experienced.

In our opinion this conception is wrong. It is one of the tasks of a properly managed and well organised Reserve Bank to tide over busy periods when money is in strong demand, without unduly raising the bank rate. The absence of a mechanism, which by expanding credit can meet the seasonal demand for money, is mainly responsible for the variations in the bank rate.

In this respect the position of the Imperial Bank ought to be considered. This, the largest and most important bank in India, is a hybrid institution. It is the Government banker and in connection herewith its task is limited by law. The most important restriction consists in its being shut out from foreign exchange business. The Bank acts as the Bankers' Bank without having the right to issue bank notes as the currency is controlled by the Government. This results in the Government practically dominating the bank rate and the money market.

The restrictions imposed on the Bank's activities do not prevent it from being the strongest commercial bank in the country.

This dual position of the Imperial Bank has several detrimental consequences. As stated already, the control of currency and the inland credit giving are in the hands of two distinct authorities.

The Imperial Bank has no concern with the international position of the monetary unit of the country. It has some of the privileges of a Reserve Bank, having the free use of Government balances and acting as

the Bankers' Bank, but it does not perform the task of a Reserve Bank. Being primarily and mainly a commercial bank and having no responsibility for the supply of currency, it has no inducement to carry such strong cash reserves during the slack season, that it is in a position to tide over stringency of money during the busy season, without unduly raising the bank rate.

It invests large amounts (at the present moment about 57 per cent. of its credits to the business life of the country) in Government securities, whilst trade and industry have to pay high interest rates as a result of the bank rate being raised. If a Reserve Bank existed in India, it would be the task of that bank to keep, during the slack season, the cover in gold and gold securities of its sight liabilities at a high percentage of 50 per cent. or more in order to be strong enough to increase its credits during the busy season, and accommodate business at a moderate rate of interest.

The Imperial Bank uses as a safeguard the emergency currency which it is entitled to borrow—to a maximum of 12 crores—from the Government if, and in so far as, its cash reserve is insufficient to expand its credits. It relies upon this safeguard and can therefore keep its own cash-reserve at a comparatively low level. No loan, however, may under the present regulations, be made until the bank rate rises to 6 per cent. whilst the entire amount outstanding at any time bears interest at bank rate subject to a minimum limit of 6 per cent. for the first four crores, and of 7 per cent. for the subsequent eight crores. The Reserve Bank would have no Government help to fall back upon, but would have to rely upon its own reserves and thus be compelled to keep sufficient free reserves for supplying the country with the currency needed during the crop-moving season.

By way of illustration it may be mentioned that on the 31st of March 1930 the liabilities of the Reserve Bank under the Bill of 1928 would have been about 217 crores. The minimum cover in gold and gold securities would have been 40 per cent. or nearly 87 crores. The Government would have had to transfer gold and gold securities to the Bank to an amount of 50 per cent. or 108½ crores, so that even without having increased this percentage of 50 per cent. during the slack season, the Bank could have accommodated the country with currency to an amount of $2\frac{1}{2} \times 21\frac{1}{2}$ or $53\frac{1}{2}$ crores before the minimum cover would have been reached. Assuming that no action to raise the bank rate would have been deemed necessary before the cover in gold and gold securities would have decreased to 45 per cent. the Bank could have issued emergency currency to an amount of 25 crores.

No criticism whatever is meant by the above against the action of the Imperial Bank. On the contrary, we are of opinion that the Bank fulfils its task in an admirable way and that its shareholders would have well-founded reasons for complaint if the Bank's management followed the policy of a real Reserve Bank. It is the system, not the Bank's policy, that is wrong, and the sooner this system is changed and the Reserve Bank constituted, the better it will be for the country and its banking organisation.

As is well known, the Government of India prepared a Bill to establish a gold standard currency and to constitute a Reserve Bank. This Bill, however, has not been passed into law.

We think it one of the principal duties of the Central Banking Enquiry Committee to recommend that a Reserve Bank should be established in India as soon as possible and that this institution should be free from political influence.

The main tasks of the Reserve Bank would be:—

(*a*) To keep the currency of the country at par with gold, in any case at a value between the upper and the lower gold points.

(*b*) To control as far as possible the credit situation and the rate of interest at which short term credit will be available for trade and industry.

In regard to the first task, the provisions of the Bill may be deemed satisfactory. In addition to the objection to buy and sell gold and gold exchange, the bank will be allowed to purchase from and sell to scheduled banks *and persons approved by the Board of Directors of the Bank* the currencies of such gold standard countries as may be specified in this respect by the Governor-General in Council, and bills of exchange (including treasury bills) drawn in or on any place in any such country and maturing within ninety days from the date of such purchase, and to keep balances with banks in such countries.

Moreover the bank will be entitled:—

To purchase and sell securities, maturing within five years from the date of such purchase, of the Government of any gold standard country as mentioned above;

To open an account with and act as agent for correspondent of any other bank which is the principal currency authority of a gold standard country under the law for the time being in force in that country or any of the Federal Reserve Banks in the United States of America.

These provisions will enable the Reserve Bank to build up a strong position in foreign exchange and foreign securities which the bank can sell if, and so far as necessary, to strengthen the international value of the rupee.

The stipulations in the Bill with regard to the second task seem to us less satisfactory. We refer to the Bank's influence on the inland credit situation and on the rate of interest at which short-term credit will be available for trade and industry.

With the exceptions, which will be mentioned hereafter, the inland credit giving business of the Bank will in general be confined to:—

The purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and arising out of *bona fide* commercial or trade transactions bearing two or more good signatures, *one of which will be that of a scheduled bank,* and maturing within ninety days from the date of such purchase or rediscount.

The making of loans and advances, repayable on demand or on the expiry of fixed periods not exceeding ninety days against the security of:—

Stocks, funds and securities (other than immovable property) in which a trustee is authorised to invest; gold coin or bullion, or documents of title to the same;

Such bills of exchange and promissory notes as are eligible for purchase or rediscount by the bank.

It follows from the above that apart from the loans or advances against securities and gold coin or bullion, the Reserve Bank's business will depend on the demands for credit by the so-called "Scheduled Banks". The term "Scheduled Bank" means a bank included in the First Schedule to the Bill.

The following exceptions to this rule are allowed:—

(*a*) For the purpose of financing seasonal agricultural operations or the marketing of crops, bills of exchange and promissory notes of not more than six months' maturity, may be purchased or rediscounted to a limited extent, which bear as one of the signatures that of *a Provincial Co-operative Bank* instead of that of a scheduled bank;

(*b*) During the first five years loans and advances may be made against promissory notes of any scheduled bank or a *Provincial Co-operative Bank*, supported by documents evidencing title to goods which have been transferred, assigned, hypothecated or pledged to any such bank as security for a cash credit granted for *bona fide* commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or the marketing of crops;

(*c*) When, in the opinion of the Board of Directors of the Bank, it is necessary or expedient that such action should be taken in the interests of Indian trade or commerce, or for the purpose of enabling the bank to perform any of its functions, the Bank may purchase, sell or discount any bills of exchange or promissory notes drawn and payable in India and arising out of *bona fide* commercial or trade transactions, bearing two or more good signatures and maturing within ninety days.

The question arises whether these provisions will enable the Reserve Bank to exercise full influence on the internal interest rate and to prevent undue increase of that rate during the busy season. We doubt whether this will be the case.

In the first place attention may be drawn to the fact that no well-developed and extensive bill market exists in India and that it will take years before such a market can be created. As the experience with regard to the loans from the Paper Currency Department to the Imperial Bank has shown, the amount of trade bills which are available as securities for these loans is insufficient. Notwithstanding the efforts of the Imperial Bank to create bills against its outstanding credits, it was often impossible to borrow, within the limit of the maximum of 12 crores, the money that was wanted to meet the seasonal demand. As compared with loans and cash credits the inland bills, discounted and purchased, form only a small item among the assets of the Imperial Bank. It seems, therefore, very likely that the Reserve Bank, in so far as its business is limited to the purchase and discount of bills and promissory notes arising out of *bona fide* commercial and trade transactions and bearing two or more good signatures, will not be able to provide the country, on the basis of such bills and pronotes, with sufficient accommodation to tide over the periods of strong demand for money.

In the second place it ought to be emphasised that the position of the scheduled banks under the Bill will be so strong that it is not inconceivable that they will much more than the Reserve Bank, decide upon the level of the interest rate. During the slack season the position will be that there will hardly be any business for the Reserve Bank to do, whilst on the other hand in the busy season, as soon as the scheduled banks will have to apply to the Reserve Bank for credit help, they will probably raise their rates. The result will be that fluctuations in the interest rate, as result from the present system, will continue.

These considerations bring us to the conclusion that the Reserve Bank should be given the opportunity of making loans and advances on the security of movable goods, wares and merchandise besides the warehouse warrants or warehouse receipts representing the same.

To avoid misunderstanding, it may be added that the Reserve Bank need not necessarily avail itself of this opportunity to a large extent; the mere fact that the opportunity exists will enable the Bank to exercise a strong influence on the level of the rate of interest.

In this connection we would point out the following considerations, which form the introduction to the further measures which, in our opinion, should be taken with regard to the money market in India.

As stated above, no elastic and well provided bill market exists in India. This is the result, not of lack of organisation, but mainly of the fact that for the time being the fundamental conditions for such a bill market are lacking. We need not go into details in regard to this subject, since it is generally agreed upon that it will take time before these conditions will be fulfilled. We must face the facts, and since the facts in this respect are that preparatory work of several years will be needed to educate the financial and business community of India in order to make it ripe for a real and highly developed bill market, we must try to achieve our aim in a way which will meet the present conditions of the country.

This method is, in our opinion, to develop, extend and improve as far and as soon as possible, the system of credit giving against the security of movable goods, especially of the products of the country. As long as credit instruments, which are based on personal standing, confidence and knowledge are not available to such an extent as is necessary to finance business and trade, the deficiency must be filled up by basing the credit system on the security of valuable and liquid assets as bonds, shares and movable goods. This has been the experience in other countries. As a striking example we may point to the Dutch East Indies, where no money market and no inland bills exist. With a few exceptions the whole inland credit system in that country, of both the Reserve Bank (Java Bank) and commercial banks, is based on the making of loans and advances against the security of stocks and funds, goods, wares and merchandise, coin and bullion, besides the warehouse warrants or warehouse receipts representing the same. Moreover, the commercial banks grant credits to sound plantations during the crop growing time against security of the crops.

It follows that the Java Bank does not act as a bankers' bank in the strict sense of the word. This would be utterly impossible under the prevailing conditions since the bank would be unable to exercise any

influence on the interest rate in the country and would be compelled to restrict its task to that of an exchange bank without being able to co-ordinate its foreign exchange business and its inland credit giving.

Under the present system, the Java Bank is in a position to stimulate inland trade, to provide cheap credit which results in better prices for the products of the country, to expand its credits in order to tide over periods of stringency or to restrict its credits in order to strengthen the international position of the currency. This system works most satisfactorily because it suits the conditions of the country and the stage of development of its population and its business life. It is not artificially built up on the example of foreign countries where circumstances are quite different. It has grown gradually in the course of the century, during which he Java Bank acts as the bank of issue of the Dutch East Indies. The interest rate for short-term credit is moderate—at present 4½ to 5 per cent.—and this rate is usually maintained at the same level during the busy season.

This survey leads to the conclusion that considerable improvement of the credit situation and the money-market in India can only under present conditions be achieved by improving and extending, as far and as soon as possible, the storage and warehousing of goods in order to enlarge the basis of the credit system.

It seems premature at the present stage of our work to enter into details. If our view might be accepted, a scheme could be devised in connection with the needs of the marketing system, since both credit system and marketing are involved.

The ultimate aim would be, in our opinion, to cover the country with a widespread network of warehouses or godowns, adapted as much as possible to the requirements of the various parts of the country; the establishment and management of these warehouses should, as far as possible, be in the hands of one big private company with agencies in a gradually growing number of marketing places. The warehousing system should be linked to the railway system; arrangements should be made for grading the products stored in the warehouses, according to their quality.

The warehouse receipts issued by the company would be negotiable instruments of title which can safely be accepted by banks and bankers as collateral for credits.

If such an organised and well managed system of warehousing could be established, an instrument would be created which suits the needs of the country better than, under present circumstances, the bill of exchange or promissory note can do; these instruments would form media between the different parts of the present credit and banking organisation; they would enable the Reserve Bank to make its policy, with regard to inland-credits, effective and to tide over periods of stringency in the money market.

The great problem in respect of the money market under present conditions in India is to create an instrument which is acceptable to all parts of the banking organisation, which is not exclusively dependent on the standing and respectability of the borrowers, which represents a real value in non-perishable, readily saleable goods. This can only be achieved by establishing a warehouse system as advocated above, and therefore the forces of Government and business life in India should be concentrated on the construction and development of such a system.

Apart from this aim, measures to stimulate and extend the use of bills ought to be considered.—As stated in several reports, the use of Muddati Hundis has diminished in the course of time. Considerable difference of opinion on the causes of this phenomenon exists.

As such reasons are mentioned:—

the development of the cash-credit system which is said to have unfavourably influenced the use of bills;

the reluctance of banks to discount these bills as freely as before, without the reasons for this reluctance having been mentioned;

the high stamp duty.

However this may be, it seems of greater importance to devise remedies than to enter into discussions on historical development.

It ought to be emphasised at the outset that genuine trade bills, as would be eligible for purchase or rediscount by the Reserve Bank, can only be created if producers and traders are prepared to sell on credit. The distinction been trade bills and finance bills is of the greatest importance and the information which we gathered, seems to point at great difficulties experienced by purchasers of bills in endeavouring to distinguish between these two classes of paper.

The establishment of the Reserve Bank must also in this respect be considered the first and fundamental measure for gradual improvement and extension. The published rate of the Reserve Bank should be the discount rate for genuine first class trade bills and loans even against Government securities should have to pay a somewhat higher rate. The popularity of the bill of exchange or hundi would be increased since an inducement for trade and banking would be created to foster the bill market.

The stamp duty on usance bills should be reduced if the contention that the duty is excessive would prove to be correct; uniformity of this duty for all parts of India should be advocated.

The importance of furthering the issue of vernaculars and of the standardization of that use has already been emphasised in the memorandum on commercial banks.

All these means may be useful, but it must be realised that considerable improvement can only be achieved if and in so far as on the one hand the existing prejudice against the rediscounting of bills could be removed and, on the other hand the necessary educational work meets with success.

The prejudice seems to exist with the indigenous bankers and also with joint stock banks. They regard it as a sign of weakness to rediscount their bills. We think it hardly conceivable that their prejudice could last a long time after the constitution of the Reserve Bank. The fact that even the Imperial Bank will avail itself of the rediscounting facilities of the Reserve Bank will, in all probability, dispel the prejudice.

The educational work will certainly take a much longer time. This work must aim at creating the knowledge and confidence which in western countries, especially in England, are the foundations of the bill market. This knowledge and confidence are lacking with regard to the genuine character of the bill and the financial standing of the signatories to the bill. It seems to us that the initiative to improve this situation must be

taken by those who are in the position to create bills and who want to sell or discount these bills. They, the producers and traders, must come to the conviction that they serve their own interests by disclosing their real financial position to their banks. If they act in accordance with this conviction and an inducement, as advocated above, is created by the Reserve Bank for the use of bills, a gradually growing number of first class trade bills will come forward. The Reserve Bank and the commercial banks will then, in due course, have to decide whether a further step should be taken by raising the interests on cash credits in current account to a higher level than the rate for such credits for a fixed period of two months.

Perhaps the most important, but at the same time the most difficult measure would be to extend the working sphere or in any case to improve the banking standard of those who may be considered as the original operators in the hundi market, the indigenous bankers.

Not much is known of this class of the banking community, but it cannot be doubted that their work in financing agriculture, internal trade and small industries is of great value to the interest of the country.

With regard to the position of this class of business men, it must be concluded that in several parts of India their position is weakened as a result of the spread of more modern banking methods.

It has been experienced in most countries that the influence and the working sphere of the private banker has diminished as the commercial banks penetrate into the country. This natural course of events will continue in India, but it will spread over many years to come and it seems not unlikely that, even apart from the influence of the present world crisis, the process will be slackened. It may be pointed out in this respect that after the Reserve Bank will have been started and the Imperial Bank will be converted into a purely commercial bank, the Government will not any longer have the opportunity of compelling this bank to establish new branches in places where no fully remunerative business can be found. The number of places which offer the possibility of remunerative business for branch banking will grow very gradually.

All things taken together, it must be expected that the country for its banking accommodation will need the indigenous bankers during a great many years and such the more since a part of the large field, which is covered now by the moneylenders, may in future be opened to the indigenous bankers.

We think it, therefore, of the greatest importance for both, the general interest and the indigenous bankers, to strengthen the position and to raise the standard of these bankers. This can only be done with the co-operation of themselves They will have to adjust their position to the changed circumstances and they will have to decide upon the direction which they want to follow.

The first requirement would be that a clear distinction be made between their banking business on the one hand and their trade and other activities on the other side. They can either give up their trading and other occupations than banking, or they can give up their banking. A third possibility—the transformation of their trade department or their banking department or both into separate companies in the form either of a joint-stock company or a commaudit-company—has already been discussed.

We are not in favour of compulsory measures with regard to the indigenous bankers. They should establish or reform their own associations, which would have to make regulations with regard to rates of interest, publication of balance-sheets and profit and loss accounts, proper book-keeping and auditing, and in general have to take all those steps which seem appropriate to raise the standing and improve the banking methods of their members.

A close contact should be established between these associations and the Reserve Bank in order to enable the latter to influence the policy of the former in the interest of their members and of banking in general.

The membership of an association as we have in view would greatly raise the standard of the indigenous bankers and would inspire the public with confidence to entrust their money to these bankers. This undoubtedly would develop the banking habit, attract deposits and reduce any hoarded capital.

If these lines could be followed, and if the individual indigenous bankers are prepared to disclose their financial position to the banks with which they do their business, it may be expected that the conditions for an extension of the bill market will be created. Their knowledge of local conditions and of the trade transactions, which must form the basis of good bills, the confidence which their signature on the bill will inspire will induce commercial banks to discount their bills more freely than at present. They will be the agency through which the financial transactions of inland trade may be moulded to a higher degree than at present in the form of bills. They will thus provide the banking community with a gradually growing number of indigenous bills, which may be rediscounted by the commercial banks and eventually by the Reserve Bank , whilst we think it advisable that the Reserve Bank should establish direct relations with and grant rediscount facilities to those indigenous bankers who have compiled with the desiderata already explained and whose financial position satisfies the Bank's requirements.

In the above no mention has been made of the introduction of Rupee bills in connection with the import trade of India. At the present stage we consider the improvement of the inland bill and money market as the fundamental and primary problem. This problem must be solved before progress to an appreciable extent can be expected in the use of Rupee bills for settling foreign trade transactions. The question in what currency the bill will be drawn, forms part of the conditions which have to be agreed upon by buyers and sellers. It needs no comment that they will try to find the cheapest solution. Under normal circumstances the currency of that country will be preferred where the lowest rate of interest prevails and the money and bill market is so well developed that no doubt can exist about discount facilities being available at any time during the currency of the bill. These conditions are lacking in India. As long as this is the case trade and industry would be hampered and the cost of imported goods raised by enforcing sellers of foreign goods to draw Rupee bills.

Chairman: I think it will perhaps be useful if we begin with the practical bankers, Lala Harkishen Lal, Mr. Lamond and Mr. Buckley.

Lala Harkishen Lal: Does the term 'money market' mean the local markets of Calcutta and Bombay, or does it refer to the circulation of money all over India.

Dr. Trip: The circulation of money all over India.

Lala Harkishen Lal: You speak of the central money market and the bazaar money market. Do you find these markets everywhere in India, or are they the feature only of Bombay and Calcutta?

Dr. Trip: As far as I am aware, principally of Bombay and Calcutta, and perhaps of Madras.

Lala Harkishen Lal: Is there a central money market in Delhi, Cawnpore, Amritsar or Ahmedabad?

Dr. Trip: No, but I think the transactions that are done in Delhi by banks are to a certain extent part of the building of the money market. I mean by 'central money market' and 'bazaar money market' two types.

Lala Harkishen Lal: Are there in Delhi both these types of markets?

Dr. Trip: Generally in every country the money market is in an important centre. In Holland the money market is in Amsterdam. In England it is in London.

Lala Harkishen Lal: That is why I asked whether you referred only to Calcutta and Bombay, and you said 'No, all over India.' Have you revised your opinion?

Dr. Trip: No. The money market in big places draws money from all over the country. Money flows from the country to the central money market.

Lala Harkishen Lal: I understand the London Money Market and provincial money markets are different. That is my impression.

Dr. Trip: In my country the money market of Amsterdam is built up from the resources of the country.

Lala Harkishen Lal: We have heard in the discussions that bills can be discounted at private firms as well as at banks, and there are therefore two markets in Calcutta and Bombay. I do not know whether even in Madras there are two markets. The question arises whether this feature of two markets existing side by side in two main places, namely, Calcutta and Bombay, is found in Cawnpore, Delhi and other places, which are also big places.

Dr. Trip: My impression is that bazaar markets exist in these places.

Lala Harkishen Lal: No central money markets?

Dr. Trip: No.

Lala Harkishen Lal: Does the influence of bazaar money markets extend over very wide areas or is it limited to the cities or any portions of them only?

Dr. Trip: I think their influence extends only over the places where they are.

Lala Harkishen Lal: You have not enquired whether in places like Muttra or Meerut there are bazaar money markets.

Dr. Trip: No.

Lala Harkishen Lal: You say that the control of currency and credit in India is in the hands of two distinct authorities, the Central Government and the Imperial Bank, and you recommend that the control of both should be in one hand. Would you kindly tell me the countries where currency and credit have gone hand in hand under one authority for the last 25 years.

Dr. Trip: I think most of the countries where well equipped and developed central banking is working. I should say in most of the countries apart from some small countries.

Lala Harkishen Lal: England of course we might take, but was it the case that in 1901, 1902, 1903, the Bank of England controlled the currency and credit of Scotland, Ireland and Wales?

Dr. Trip: No.

Lala Harkishen Lal: Therefore Scotland, Ireland and Wales came later.

Dr. Trip: I think they had private banks which had the right of issuing notes.

Lala Harkishen Lal: I should like to know since when Scotland, Ireland and Wales came to have one authority for dealing with both the matters.

Dr. Trip: I think in Scotland and Ireland, there is now one authority to deal with them, but I am not sure.

Lala Harkishen Lal: Currency and credit might have been together for a long time there, and also in your own country, but would you say the same thing of Belgium, Sweden and Norway?

Dr. Trip: Yes.

Lala Harkishen Lal: Which was the authority that really controlled the money market and credit and currency in Sweden and Norway?

Dr. Trip: I cannot tell you.

Lala Harkishen Lal: Before the Empire, Germany could not have answered to this description, and after the establishment of the Empire how many years did it take before credit and currency came under one authority?

Dr. Trip: I could not tell you. There are some banks which issue their notes even now.

Lala Harkishen Lal: In Italy both the matters came under one authority only recently, and the same will be true of other countries because they have never been really financially strong. That is, it is a matter of recent growth.

Dr. Trip: To a certain extent it depends upon the country.

Lala Harkishen Lal: Do you say that we are behind the times?

Dr. Trip: I won't say 'behind the times'. I think it is really a pity that no central banking authority has been started in this country long ago. That is my opinion.

Lala Harkishen Lal: Going back another 25 years, there are countries like Germany and France, and since recently, countries like Italy, Czeko-Slavokia and Jugo-Slavia, which really got enriched by industrial profits much more than they ever did in the previous century or half a century. Leaving aside conditions during the war, the income of Germany from

industries has increased much more within the last half a century than before. It is this income from industries that has highly influenced the money markets of those countries.

Dr. Trip: With regard to the money market, you mean that industrial development is the foundation for the improvement of the money market?

Lala Harkishen Lal: Our difficulty is—whether it is reflected through the money market or through banks or through any other agency—that we are short of money and money is dear. Even the money that is there is not organised and is therefore irregular. While you have been dealing with one aspect. . . .

Dr. Trip: I have taken the position of this country as it is.

Lala Harkishen Lal: Quite so, but that would mean that the difficulties I have described are not reviewed in this paper, and that it only deals with the method by which it could bring its resources into one pool and go as far as it can go with the resources it has at its disposal. Is it not so?

Dr. Trip: Yes.

Lala Harkishen Lal: Would you be prepared to consider at a later stage the shortness of money which is due to smallness of income?

Dr. Trip: I think it is not within the purview of banking. It is concerned with the economic development of the country, and I had not the impression that we came here to advise on the economic development of the country.

Lala Harkishen Lal: When we framed the questionnaire we talked not only of the money market, but we talked of industrial finance, expansion of banking in India with a view to meeting the requirements of foreign trade, internal trade and so on. It was said the last time we met that foreign money introduced in a certain fashion at a certain stage might to some extent help us. When foreign money begins to come in very freely, it will affect our money market also. At the same time if we have no other way of bringing more grist to the mill, we must bring foreign grain and grind it.

Dr. Trip: I quite see the point.

Lala Harkishen Lal: Therefore, so far as some members at any rate are concerned, we had in our mind not only regulation, but more and more deposits to make money available for our industries. But that has not passed in your mind.

Dr. Trip: No. It is of course desirable for this country to get foreign money or money that can be earned in this country by economic development. But it is outside the purview of the money market. Money market is in the first place a question of organisation and gathering of the amounts that are available.

Lala Harkishen Lal: When we think of the money market we think of the money market of the whole country, not only of Calcutta and Bombay, and I asked you whether you would have more money markets in India than two. If we understand that your paper deals only with the present resources and not others, our questions will be more limited than otherwise.

Dr. Trip: I cannot see how it is possible to write a paper on the money market in a country when you bring in the whole economic development of the country. It is a thing, in my opinion, quite apart from the money market.

Lala Harkishen Lal: Whatever the reason may be, this paper does not deal with these things. Let us take things as they are. You say that the control of currency and credit is in the hands of two distinct authorities. So far as I can make out from a reading of the whole paper, a Reserve Bank would be able to regulate the rate of interest better than the Imperial Bank. The advantage of starting the Reserve Bank and bringing the currency and credit under its control is that money will be more regular and perhaps cheaper.

Dr. Trip: Yes.

Lala Harkishen Lal: Credit facilities in a country are generally supposed to be based on gold supply. Some people have written books recently where they say that trade bills might also be considered as good security for a part at any rate of the currency, and that thus the circulation of currency might be increased. Mr. Currie took exception to that the other day. Do you take exception to that?

Dr. Trip: Trade bills can be good cover for currrency. I do not think that Mr. Currie differed from that.

Lala Harkishen Lal: If industrial property could be made cover for the currency of the country . . . . . .

Dr. Trip: That is a different thing.

Lala Harkishen Lal: It is not.

Dr. Trip: You spoke of bills.

Lala Harkishen Lal: My impression from a study of the new literature is that if trade bills could be good cover for currency, industrial property could be as good a cover for it, or perhaps it would be better cover for it than gold itself.

Dr. Trip: We do not agree. Goods and raw produce either sold or on their way to the market can be used as cover.

Lala Harkishen Lal: It means that the Reserve Bank you propose may enlarge the currency against bills for goods at various stages of manufacture, completely manufactured or raw.

Dr. Trip: Yes, only as far as the goods are produced and are on their way to the market.

Lala Harkishen Lal: The sugar cane railed say 40 miles away from the country will not be a good security for bills, but the cane when it is crushed and turned into sugar would be.

Dr. Trip: Yes.

Lala Harkishen Lal: Then you do not take raw materials as good trade bills?

Dr. Trip: No. That is too far away from the sale.

Lala Harkishen Lal: But raw materials warehoused and sold say 3 or 4 months after as such you do consider as good bills?

Dr. Trip: Yes.

Lala Harkishen Lal: But if that raw material leaves the warehouse and travels to the factory and then gets to the factory godowns, that ceases to be a good bill?

Dr. Trip: That of course, is a question of the credit of the factory. If the factory buys raw material . . . . . .

Lala Harkishen Lal: Why I am asking is this. In England, especially in Lancashire, the cotton is delivered to the mills from day to day but in this country the cotton has to be stored for 9 months, especially up country, not Bombay. In Bombay perhaps they get 3 days' supply, or 4 days' supply, sometimes more, but up country the cotton has to be stored for 8 or 9 months to work the mill for the whole year. Would that cotton in the warehouse of the factory be a good security for bills which may eventually be rediscounted or discounted by the Reserve Bank?

Dr. Trip: Well, I should say preferably not. I think we must have saleable goods. When a bill is drawn on the factory for the cotton purchased by it and the financial position of the factory is sound, then it might be a bill which is quite all right.

Lala Harkishen Lal: I am asking this question because at a later stage you do state that you do not consider any bills for a longer period than 90 days. The bills are to represent the condition of trade and commerce in a country, not that there should be a universal rule.

Dr. Trip: I should say that would be bills in the first place to be taken by the commercial banks, because I attach the greatest value to the Reserve Banks being liquid institutions so that they have opportunity of restricting or extending their currency within a short period, and I think, generally speaking a period of 8 or 9 months is too long.

Lala Harkishen Lal: Quite so. But sometimes old seasoned wines are much better for use . . . . . .

Dr. Trip: That is not so with regard to money.

Lala Harkishen Lal: The system of trade and especially of industries in some countries really depends on the division of labour. In England, for example, one gathers this—that the cotton is contracted for but is owned and kept in the warehouse by one party. Then it moves to the factory, two days before it is really used. Well it then becomes yarn in the mill say in 3 or 4 days. As soon as it is made yarn it goes to another mill, the weaving mill. From the weaving mill perhaps it takes a week. Then it shifts to the shippers' godown and so on. Therefore the property of the goods there is for a very short time, because the industry is not really consolidated in the way that it is done in India. In India you have to buy cotton upcountry during the season, stock it in your own mill, use it gradually from day to day and when the yarn is made it has to be woven in the same place, has to be dyed in the same place, and sold from the same place. So that the raw material that comes into an Indian mill takes sometimes 6 weeks; perhaps, that is the shortest time in a cotton mill, and sometimes it takes 10 months, which is the longest. That is the way that the mills work here. Now the question comes in whether the money market of India should not recognise these features of the industry as they are, rather than on something ideal which does not exist in this country but exists in other countries; that also, as far as I know, only in England. In other countries I don't think the division is so very sharp as I have described in Lancashire.

Dr. Trip: We discussed that question with regard to industrial finance of the mills; they ought to have their normal working capital themselves so that they need not depend on banks, and certainly not on the Reserve Bank.

Lala Harkishen Lal: You would shut these bills out from the money market or the Reserve Bank?

Dr. Trip: I would shut them out from the Reserve Bank.

Lala Harkishen Lal: Otherwise you would not shut them out from the money market to deal with them with the resources other than the currency resources?

Dr. Trip: No.

Lala Harkishen Lal: Even then would you have any hesitation in recognising a 9 months' bill as a good bill, provided it is a trade bill and is supported by the goods in the warehouse of the factory?

Dr. Trip: Well I should say, generally speaking, the currency of the bill is too long, but I quite perceive that under the circumstances that prevail in this country it would be an attractive investment for commercial banks.

Lala Harkishen Lal: Quite so. Now you say that the Reserve Bank should be given the opportunity of making loans and advances on the security of movable goods, wares and merchandise, besides warehouse warrants and warehouse receipts representing the same. In that you do not say 90 days, but so far as the Indian warehousing and Indian movements of our goods are concerned, they will not always take 3 months. Therefore under that recommendation, the Reserve Bank would be entitled to advance money on these securities for periods longer than 90 days?

Dr. Trip: Well I should not like them to give credit on principle for a longer time than 90 days, but I would empower the management of the Reserve Bank to extend the period if they see no objection to that with regard to the home position.

Lala Harkishen Lal: Supposing they do not extend, what is a man to do?

Dr. Trip: I do not say that the Reserve Bank would act in such a way, that the owner of the goods would all of a sudden be placed in a difficult position, but the right of the Reserve Bank not to extend must remain unimpaired.

Lala Harkishen Lal: Since we are building an institution why should we not build a rational institution, why should not we, if we are wanting a Reserve Bank, also utilise it for this purpose? Why not be honest and straightforward and less conventional? Why should not we say that according to the requirements of the country the stocks have to be kept 90 days or if they have to be kept for 9 months, bills should be for 9 months. Because others are not issuing bills, there is no reason why we must not either.

Dr. Trip: I would leave it to the opinion and decision of the Central Bank authorities. The first thing to be done by a Reserve Bank is to keep its position liquid and apart from that I should be in favour of leaving the decision to the Reserve Bank.

Lala Harkishen Lal: You see in this country there is a great suspicion against the administration of authorities. The suspicion against legislation is not so much as against administration. And therefore India

as situated at present is less likely to agree to anything which is left to administrative discretion of the authorities rather than to legislation. Things might change but that is another matter.

Dr. Trip: I can only say with regard to that that one has to make his choice. When you want to make all the provisions with regard to the Reserve Bank very strict, then it is impossible in my opinion, to create a Reserve Bank in the country.

Lala Harkishen Lal: That may be. But the question is that you say that we ought to recommend straightway that there should be a Reserve Bank, and that this institution shall be free from political influence. We will talk of political influence later. But when you say that we should straightway ask for an institution and with my mind full of suspicion that the administration of the Reserve Bank, placed in the hands of authorities appointed by the Government, would not be really a very fair administration, how can I really vote for it unless I know that they would not be able to do mischief?

Dr. Trip: Then you would come to the conclusion that this country is not ripe for a Reserve Bank.

Lala Harkishen Lal: My mind is full of suspicion and therefore I haven't made up my mind, but if I find that my suspicions are removed, then I might vote for it.

Dr. Trip: That depends on the mentality of the country. It is not a banking matter.

Lala Harkishen Lal: It is banking in this that banking is not what may be called an abstruse science but a physical science. The same proposition is true everywhere and at every time. For the economic and social science, locality, history and the time are 3 additional factors in arriving at any deduction from social factors, while in physical science, these 3 factors are absent. We are not dealing with banking as a physical science, or as a natural science. We have dealt with it as an economic science and therefore these 3 factors, locality, history and the time, have to be taken into consideration, and if you take these 3 factors into consideration, you would not call me a very hesitating man—my suspicions ought to be respected in really building up an institution of the type of Reserve Bank.

Dr. Trip: I can only say one thing, and that is that you have to take it or leave it and if you are convinced that the mentality of this country and all the circumstances that prevail in this country make it undesirable to start a Reserve Bank, then you have to leave it.

Lala Harkishen Lal: Are all the Central Banks that now exist, on exactly the same principles?

Dr. Trip: No.

Lala Harkishen Lal: Why should not the principles underlying our Reserve Bank not be in accordance with the requirements of the country rather than an ideal imported from somewhere else?

Dr. Trip: I think that is the line on which I argued. I tried to make a proposal which would bring the Reserve Bank more in contact with the circumstances prevailing in the country.

Lala Harkishen Lal: Therefore you said in regard to security—I am thinking of time also—that the special conditions of India may require the Reserve Bank to deal in securities which in other places they do not. I am asking, would the Reserve Bank be entitled in matters of time also to suit the requirements of the country rather than some ideal time fixed.

Dr. Trip: In principle I quite agree with you, but I think that especially in the initial period of the working of the Central Institution, I should like to be very cautious and very prudent, and I think the first aim ought to be to make that institution as liquid as possible, and to keep it as liquid as possible and to concentrate its strength during the first years, when the practice is to be made, on helping in tiding over the periods of stringency. That is the principal aim.

Lala Harkishen Lal: Perfectly true. But what is passing in my mind is about the liquidity—liquidity is not only water, there are thick liquids and thin liquids and there are liquids which do not lose their utility, or lose their medical or other properties by keeping. Therefore, my view is that the industrial bills supported by goods will not work on 3 months' basis in this country unless something very extraordinary happens. Therefore we ought to say that the question of time of 90 days is not suitable in all cases in India.

Dr. Trip: No.

Lala Harkishen Lal: And therefore the time limits of the bills should be different according to the requirements of each case. Of course in Bombay it may be possible to work the 3 months' bills, but not up-country. In the same way I do not know about jute.

Mr. Khaitan: The mills in Calcutta usually stock about 9 to 12 months' consumption of jute.

Lala Harkishen Lal: Well, now the two biggest industries of the country are jute and cotton and. so far as cotton is concerned, I have personal experience. So far as jute is concerned Mr. Khaitan has given us the information required. So far as the Reserve Bank and the bills are concerned, unless the time is fixed at a longer period than 3 months, the Reserve Bank will be of no service to these industries.

Dr. Trip: I must say I do not quite understand your point. I should have no objection against the time of the bills being left within certain limits to the decision of the Central Bank authorities. When I say that, then you say 'my mind is full of suspicion against the authorities'.

Lala Harkishen Lal: At one time I dealt with the Bank of Bengal. They advanced me money. The bills were renewed. One day I got a letter from the Agent at Lahore to go and see him, and he said he wanted to close this account. Six months had not passed. Within a week or 10 days I paid the money. But at the same time another man may not have been in a position to do that. Then what is to be done?

Dr. Trip: I cannot tell you what is to be done in every individual case.

Lala Harkishen Lal: Since then I have not dealt with the Bank of Bengal for that reason.

Dr. Trip: It is all a question of the decision of the Reserve Bank with regard to the policy of the Reserve Bank authority. There may be cases when the Reserve Bank is absolutely not in a position to help these cases.

Lala Harkishen Lal: I and many other people are full of suspicion with regard to the administrative discretion of the authorities of this country, and that statement will be supported by most of us, if not by all, and outside by a very large number of people, traders and so on. Well, if that be the case, would you rather not have a Reserve Bank, or have a Reserve Bank whose rules and other things ought to fit according to the requirements of the country?

Dr. Trip: No, my opinion still is, after your enlightenment with regard to the mentality and suspicions in this country, that even apart from the financing of cotton and jute bills, the Reserve Bank could do very good work in this country and could make its influence felt on the rate of interest, specially in the busy season. If you have a bill of 9 months, it is not necessary to discount the bill from the beginning, but you can do so if the bill has run for 6 months. You can never expect a Reserve Bank to go on prolonging the bills and renewing bills.

Lala Harkishen Lal: I do not say the Reserve Bank would go on. What I said is that I have my bill of 9 months on my bank. My bank advances me money. My bank then wants accommodation on that bill for various reasons and according to you that bill must be kept with my banker for 6 months, and at the end of 6 months only it could rediscount with the Reserve Bank.

Dr. Trip: I can only repeat that I can see no objection to leaving that within certain limits to the discretion of the Reserve Bank. Do you think it conceivable that a provision would be put in, that the Reserve Bank should be obliged to accept bills of longer duration such as 9 months and so on?

Lala Harkishen Lal: What I say is that the idea of having only 3 months' bills is wrong when the tenure of industrial bills may be 6 or 9 months or even more.

Dr. Trip: I cannot say that.

Lala Harkishen Lal: If we start a Reserve Bank which does not meet the requirements of the country and its trade as it is carried on, then there is no use of that Reserve Bank. Is that not so?

Mr. Currie: The point is that for purposes of re-discounting bills with the Reserve Bank, 3 months' bills would be more suitable, as the Reserve Bank when it rediscounts a bill automatically makes it a security against the issue of its currency. Therefore, to that extent it increases the currency of the country and we all know that the Reserve Bank cannot go on expanding its currency indefinitely.

Lala Harkishen Lal: At the same time, the Reserve Bank is intended to foster big industries as well, such as cotton and jute.

Mr. Currie: The point is that the Reserve Bank must own only self-liquidating bills of short duration in order to be in a position to curtail its issue of curency if necessary.

Lala Harkishen Lal: So far as I can see, banking facilities are the money facilities of short or long term requirements and we want to increase those and one method suggested is by the creation of bills and if you curtail the functions of the Reserve Bank by allowing only bills of 3 months' duration, then really the very object of having the Reserve Bank will be frustrated. So what I say is that no restriction should be placed on the Reserve Bank but it should be asked to take bills of longer duration.

Dr. Trip: On principle I would have no objection to make the bill in this respect more elastic, but you must realise that discretion should be vested in the management of the Reserve Bank whether they think it advisable to accept bills of longer duration or not.

Lala Harkishen Lal: So far as I am concerned, personally I would not give any discretion to any authority. Simply, 'a law, when it is enacted, must be followed to the strict letter?

Dr. Trip: I do not agree at all.

Lala Harkishen Lal: My own view is, taking the conditions as we see in this country today and how Government applies its principles, this discretion should not be given. The present political situation in the country would not have arisen but for the discretion vested in the authorities which has invariably been mis-used or badly used.

Dr. Trip: I cannot say.

Lala Harkishen Lal: I do not want you to say anything of the sort at all. That is for us to say. I would agree to a law only when no discretionary powers are permitted.

Dr. Trip: Then you could never make a law. In any case, when the Reserve Bank starts its work I think it should restrict its operations to accepting only 3 months' bills, but after a few years of practical experience it should be possible later to extend the period according to the special circumstances that might exist in this country.

Lala Harkishen Lal: Then would you, in times of stringency, place any limit on the issue of its currency, say Rs. 12 crores, Rs. 15 crores or Rs. 20 crores; or in other words would you place any restriction on its powers of expansion of the currency?

Dr. Trip: I would not place any limit at all.

Lala Harkishen Lal: Then supposing we leave things as they are and if the currency authorities accept this principle of having no limit on the expansion of the currency placed, then the result would be the same as that you contemplate when a Reserve Bank is established?

Dr. Trip: No. How could the Government expand the currency?

Lala Harkishen Lal: If the Rs. 12 crores limit is removed, then of course the situation would be exactly the same whether the authorities are the Reserve Bank or the Currency office.

Dr. Trip: No, because the currency office cannot take the place of the Reserve Bank, because the former cannot understand the credit position of the country.

Lala Harkishen Lal: Neither have they the eyes nor the ears. Is that not what you mean?

Dr. Trip: I myself have been in Government service and I can quite realise that Government cannot deal with all these matters, especially when there is a feeling that this policy ought to be freed from Government influence.

Lala Harkishen Lal: What I am asking is that we desire to have more money in times of stringency from the resources of the country. The results, therefore, would be the same whether I handled the currency or you did it, provided we both followed the same policy and we had the eyes and ears. Then of course the results would be the same. Is that not so?

Dr. Trip: Yes, of course if the Government could manage it as well as a Reserve Bank then it will be all right, but I deny that the Government can do it as well as the Reserve Bank.

Lala Harkishen Lal: Here, on the other hand the Government assert that they can manage everything much better than any other private or other agency.

Dr. Trip: That is not so.

Lala Harkishen Lal: I quite agree with you. Government mismanages things all the more. I am very glad to have that opinion from you. Coming now to the position of the Imperial Bank, I understand your view is to remove one function and put in another. That is, it should cease to be a Government bank and instead it should be asked to perform the exchange function. Therefore the number of functions will remain the same. How would this then become a pure-blooded institution in contrast to its present hybrid position?

Dr. Trip: Dealing in foreign exchange is quite a different thing from dealing with Government funds.

Lala Harkishen Lal: We have been discussing commercial banks and industrial banks and it has been said that the commercial banks should not be industrial banks. Therefore, would you call any institution dealing in commercial finance and any other finance a hybrid institution? That was the view taken by Dr. Jeidels during the first three days of our discussions when he was fighting for pure-blooded institutions. Then I ask, if you recommend several functions in the case of the Imperial Bank, why not allow the same principle to other banks as well?

Dr. Trip: That depends on the functions performed by the bank.

Lala Harkishen Lal: To my mind the present hybrid position is not any worse than the position of the pure-blooded one proposed by you.

Dr. Trip: I cannot agree to that. It depends on the character, the constitution and the soundness of the Bank.

Lala Harkishen Lal: I am not questioning the soundness or otherwise. It is the complexity or the mixture of functions that is really the question here.

Dr. Trip: But the complexity of functions that are now placed on the Imperial Bank is a wrong combination.

Lala Harkishen Lal: When you are trying to put the right combination on the Imperial Bank, I ask why not apply the same principle on other banks.

Dr. Trip: Because, the wrong combination exists only in the case of the Imperial Bank and not in the case of the other private commercial banks.

Lala Harkishen Lal: You have next dealt with two matters. One is that the Imperial Bank has not the resource or the courage to deal in international finance and the other is that its cash reserves are affected. These are two distinct matters.

Dr. Trip: Yes.

Lala Harkishen Lal: How would the Reserve Bank get into the international market?

Dr. Trip: By its being allowed to operate in the foreign exchange market and its keeping strong reserves in gold and gold securities and foreign balances.

Lala Harkishen Lal: So your point is that the Reserve Bank while keeping Government balances will be permitted to deal in foreign exchange while the Imperial Bank is not under the present statute?

Dr. Trip: Yes.

Lala Harkishen Lal: Then if that existing statute is modified the Imperial Bank could deal in foreign exchange which means that there will be no real difference. The restriction at present is by legislation and not created according to the will of the Imperial Bank or by the practice of the bank. If that legislative provision is removed, then both the banks can do international business on the same lines. Is that not your view?

Dr. Trip: But the international position of the monetary unit of the country would not be the concern of the Imperial Bank.

Lala Harkishen Lal: Supposing the existing restriction on the Imperial Bank doing exchange business is removed by statute and the privileges given to the Reserve Bank are also given to the Imperial Bank, then they will stand on the same ground. Is it not?

Dr. Trip: No. The Reserve Bank will have to keep the value of the monetary unit within the limits of the gold points. If only the restriction is removed from the Imperial Bank, then they would have no obligation.

Lala Harkishen Lal: But still so far as their resources go, they would be able to do it.

Dr. Trip: Yes, but they will have no concern with the international position of the monetary unit.

Lala Harkishen Lal: Do all the Central Banks of the world have international connections now?

Dr. Trip: I cannot say that, but all good central banks, perhaps with the exception of the Bank of Japan, where it is done by the Yokohama Specie Bank, have connection with the international position.

Lala Harkishen Lal: What do you mean by good Central Banks? Is it your view that all banks that have connections with the international position are good?

Dr. Trip: A well equipped Reserve Bank would not be out of touch with the international position.

Lala Harkishen Lal: In any case, it is not one of the conditions which may be said to be *sine qua non*. Is that not so?

Dr. Trip: I cannot say.

Lala Harkishen Lal: You say that "it (the Imperial Bank) does not perform the task of a Reserve Bank. Being primarily and mainly a commercial bank and having no responsibility for the supply of currency, it has no inducement to carry such strong cash reserves during the slack season that it is in a position to tide over stringency of money during the busy season without unduly raising the bank rate". You said a little while ago that even the Reserve Bank would go to the extent of limiting bills according to the circumstances of the time. That means that it would issue currency only to the extent that it thinks prudent?

Dr. Trip: Of course.

Lala Harkishen Lal: Would not that prudence and the prudence of the Imperial Bank stand on the same level?

Dr. Trip: No, it is not the task of the Imperial Bank to carry such strong reserves to tide over the stringency of money during the busy season.

Lala Harkishen Lal: The task of the Reserve Bank would be simply to use prudence?

Dr. Trip: To help the country.

Lala Harkishen Lal: Therefore if the Imperial Bank also became prudent, do you not think the results would be the same?

Dr. Trip: It cannot be asked for from the Imperial Bank.

Lala Harkishen Lal: Is it your view that the Imperial Bank is such an institution that it cannot be prudent?

Dr. Trip: No.

Lala Harkishen Lal: Why do you say that the same results cannot be obtained?

Dr. Trip: Because the Imperial Bank is a commercial bank and it has to cater to the benefits of the share-holders of the Bank.

Lala Harkishen Lal: But if the same action is taken, would not the results be the same?

Dr. Trip: If you made the Imperial Bank a Reserve Bank with all the consequences—and in my opinion all the detrimental consequences—that would follow, then there would be a Reserve Bank and not any longer an Imperial Bank.

Lala Harkishen Lal: You say: "By way of illustration it may be mentioned that on the 31st March 1930 the liabilities of the Reserve Bank under the Bill of 1928 would have been about 217 crores." Would you kindly explain how you worked out this figure?

Dr. Trip: There were at that date currency notes to the amount of 177 crores, and then, according to the bill 40 crores must be added with regard to the silver position.

Lala Harkishen Lal: In other words, it means that the Reserve Bank under the Bill of 1928 would have the same position as the Currency Department has to-day?

Dr. Trip: No. It would only have to take care of the currency notes *plus* the 40 crores. It would not have responsibility for the whole silver position.

Lala Harkishen Lal: I should like to understand how the currency is 177 crores to-day?

Dr. Trip: It was on the 31st March 1930.

Lala Harkishen Lal: You mean the currency notes in circulation on the 31st March 1930 were 177 crores?

Dr. Trip: Yes.

Lala Harkishen Lal: And if the silver was passed on to the currency, they can issue another 40 crores. Is that the meaning of it?

Dr. Trip: No. They would have to keep under the Bill a maximum of 95 crores of silver during the first three years.

Lala Harkishen Lal: We are thinking of the total resources.

Dr. Trip: The total liabilities that ought to be covered up to a minimum of 40 per cent, by gold and gold securities.

Lala Harkishen Lal: The liability of the Reserve Bank or Currency Institution is to the extent it holds securities.

Dr. Trip: No. The liabilities are the notes *plus* 40 crores.

Lala Harkishen Lal: It comes to the same thing; the notes have to be secured by some cover.

Dr. Trip: The notes and the 40 crores.

Lala Harkishen Lal: If the cover is sufficient, then the notes are in circulation. You call one liability, the other assets. It is the same figure?

Dr. Trip: It is not the same figure.

Lala Harkishen Lal: I am only talking of currency. You say that according to the Bill the liability on 31st March 1930 would have been 217 crores. I call it resources. It comes to the same thing.

Dr. Trip: This is the special figure of liabilities under the Act that ought to be covered by gold and gold "securities" up to a minimum of 40 per cent.

Chairman: He is simply referring to section 32 of the old Bill, Lala Harkishen Lal.

Lala Harkishen Lal: I want to understand what difference it really makes under the new law and under the old law. If it was 217 under the old law, it ought to be 217 under the present law so far as the Currency Department is concerned? I want to understand how the change would be better than under the present system.?

Dr. Trip: The Reserve Bank would be in a position to issue emergency currency to an extent of 53½ crores.

Lala Harkishen Lal: That means that under the conditions of the Reserve Bank as proposed, the cover would be reduced.

Dr. Trip: Not with regard to the present position.

Lala Harkishen Lal: If the limit of 12 crores was removed, then the present currency, so far as quantity is concerned, would be in the same position as under section 32 of the proposed Bill?

Dr. Trip: We come back to the same question.

Lala Harkishen Lal: The previous discussion was with regard to quality; this is with regard to quantity.

Dr. Trip: If Government kept cover in both gold and gold securities up to 50 per cent.

Lala Harkishen Lal: If the currency legislation adopted to-day section 32 also as proposed in the Bill, it would make no difference?

Dr. Trip: It would of course make a difference, not with regard to the figures, but with regard to the whole policy.

Lala Harkishen Lal: I am only asking about the figures. Suppose the measure proposed in section 32 of the Bill is also accepted as the currency policy of the country; the results would be the same so far as quantity is concerned.?

Dr. Trip: As far as the figures are concerned, yes, but not with regard to the situation.

Lala Harkishen Lal: My question is: If the Imperial Bank is given the charge of currency and section 32 is enacted as proposed in favour of the Imperial Bank, would not the results be the same?

Dr. Trip: The results would be the same in so far that the emergency currency would be greater than it is now.

Lala Harkishen Lal: It is not the Reserve Bank, but section 32 which would enable the Imperial Bank to have a larger currency.

Dr. Trip: It changes the whole position. You can only talk about the figures, but I must say that the figures are not the decisive factor.

Lala Harkishen Lal: I am asking this question from two points of view, firstly to help ourselves; secondly from the point of view whether you want us to pass the Bill. You want us to recommend a Reserve Bank to be created, section by section as proposed in the Bill, and if you want a Reserve Bank to be built exactly on that Bill, then your statement requires modification.

Dr. Trip: The statement only refers to the recommendation of the principle. The principle is that we advise that as soon as possible and feasible, a Reserve Bank should be started.

Lala Harkishen Lal: So far as section 32 is concerned, you recommend its adoption as it is?

Dr. Trip: Yes.

Lala Harkishen Lal: You refer in your memorandum to the following:—"We think it one of the principal duties of the Central Banking Enquiry Committee to recommend that a Reserve Bank should be established in India as soon as possible and that this institution should be free from political influence". So far as our enquiry and discussions have proceeded, we have not adopted that as our principal duty.

Dr. Trip: We only think it a duty.

Lala Harkishen Lal: We have been discussing whether we have to consider the establishment of a Reserve Bank or not and the interpretation put on the reference made to us has been various, and not very definite.

This recommendation of yours is perhaps excellent in the opinion of some, but I should like to know whether it is your recommendation or whether you consider it as our duty?

Dr. Trip: In the first place, it is our recommendation, and secondly, I cannot see that a banking enquiry of this size and importance could be dealt with without touching upon the subject of the Reserve Bank.

Lala Harkishen Lal: But we have to consider how we have interpreted it all along, because we have taken no evidence on the subject. As a matter of fact, I have not read this Bill and I have not taken pains on the question of the Reserve Bank as I have on the other subjects. I should like to understand the words "should be free from political influence". What is the political influence in your country which you would try to avoid in the matter of the Central Bank?

Dr. Trip: The influence of Parliament specially.

Lala Harkishen Lal: The influence of Parliament as a whole or of party politics?

Dr. Trip: As a whole.

Lala Harkishen Lal: That means that some day the Parliament may unanimously pass a measure which is not really in the interests of the country.

Dr. Trip: That is conceivable.

Lala Harkishen Lal: You can conceive your Parliament to be so constituted that they would go entirely against the interests of the country in the matter of Banking?

Dr. Trip: Yes certainly. I am even of the opinion that when they deal with such matters, it will generally be to the detriment of the country.

Lala Harkishen Lal: I am not used to Parliamentary Government and therefore, I have to understand it. I understand party politics, but I cannot understand the unanimity of politics.

Dr. Trip: It is always done by majority.

Lala Harkishen Lal: Majority means party politics?

Dr. Trip: Generally, but not always.

Lala Harkishen Lal: I quite understand that the Reserve Bank should be free from party politics, but I do not understand that it should be independent of a unanimous voting of a Parliament.

Dr. Trip: Let me give you an example. If the Bank of England put up their rates, say from 5 to 6 per cent. and if there were a unanimous vote of Parliament that they consider that to be detrimental to the country, the Bank would simply ignore it and they would be entitled to raise it the next day to 7 per cent. I call that free from the influence of Parliament.

Lala Harkishen Lal: That means not legislative influence, but administrative influence by resolution.

Dr. Trip: But there is no influence even on the appointment of the management.

Lala Harkishen Lal: That is administrative.

Dr. Trip: Not only administrative but also on the policy of the bank.

Lala Harkishen Lal: Policy is fixed by administration provided it is within the four corners of legislation, otherwise there is no method for changing legislation or improving it which has to be done by Parliament. If we pass an Act to-day and want to amend it, the Parliament does it.

Dr. Trip: The Legislative Power does it and nobody denies that this Power could change a private Central bank into a State Bank.

Lala Harkishen Lal: When you talk of political influence, you do not mean legislative influence, but only of administrative influence.

Dr. Trip: The influence on the management and the policy of the bank.

Lala Harkishen Lal: Therefore, you would leave the higher grade appointments on the administrative side of a bank out of the hands of the Government of the day?

Dr. Trip: No, it need not be the case. In our country the Governor of the Central Bank is appointed by the Government, but not on the recommendation of Parliament.

Chairman: Is Government there not responsible to Parliament.

Dr. Trip: Yes, but then there is in the Act that the appointment has to be made by the Government, whilst moreover the Government has to decide whether they want to act up to the decision of Parliament or not. They need not accept the decision of Parliament, they can resign. If Parliament were to vote that a particular individual should be appointed Governor of the Central Bank, that vote would certainly not be followed by Government.

Chairman: Surely in Holland, and also in England, Government represents that section of Parliament which can by itself or with the help of other groups command a majority?

Dr. Trip: There is no Parliamentary majority at present in our country, but even apart from that, there can be a conflict between the Government and the party or parties on which it relies in Parliament.

Chairman: But is it not the essence of the constitution of your Government that for all its actions the Executive is responsible to Parliament?

Dr. Trip: Responsible, but they need not follow the commands of the Parliament.

Lala Harkishen Lal: The Parliament works through several methods; one method is by legislation, another by resolution. If previous legislation has arisen from Parliament, they pass a resolution and it would have the force of law. For example, there may be some provision that certain papers may be laid on the table of Parliament and if they are not objected to within a certain period, that becomes law. But where this provision does not exist in the Reform Act, even if the rules, etc., are placed on the table for a longer period, they do not become law. If the legislation provides for that, then only it can be done. So far as I can see, political influence cannot be excluded by law out of any institution.

Mr. Khaitan: I thought that if a certain resolution was passed, say, by the Parliament of England against the will of Government, either the Government will have to give effect to the resolution carried by the Parliament or if Parliament carried the resolution against which the Government voted, the cabinet will have to resign.

Chairman: We are referring to passing legislation by resolution.

Lala Harkishen Lal: How would you keep an institution created by law, a political institution like the Legislative Council or Parliament, away from its own influence? If the Reserve Bank is constituted by law, the Legislative Power has naturally the right of modifying the Act. What steps would you take to keep it away from political influence?

Dr. Trip: This is practically a recommendation that Parliament should keep away from interfering with the policy of the Reserve Bank or with the constitution of the management of the Reserve Bank, because all countries have understood that it is dangerous for political influence to interfere with the policy of the Reserve Bank and therefore, safeguards ought to be created.

Lala Harkishen Lal: Take the Bank of France. Within the last ten years, how much hubbub has not been created by Government interfering with the policy of the Bank of France?

Dr. Trip: I would advise you not to refer to circumstances which are quite abnormal. That was, of course, a case of emergency during the War. We are talking of normal circumstances. You will find in most countries, and especially in my country, that the Reserve Bank is independent.

Lala Harkishen Lal: Then you would say 'should be free from political influence except under war contingencies'.

Dr. Trip: I think it would be better in war conditions if even then there were no influence. That has proved practically impossible and therefore we need not make that exception.

Lala Harkishen Lal: Whether we say it or not, is it your opinion that during war time, or similar circumstances as war, this political influence might have a free play?

Dr. Trip: I would not call that political influence, but absolute necessities of the country.

Lala Harkishen Lal: You further say that in regard to the first task the provisions of the Bill may be deemed satisfactory. You want to give the opinion that so far as the Bill stands, its provisions within the limits stated are quite satisfactory.

Dr. Trip: Yes.

Lala Harkishen Lal: I don't think you will permit me, Mr. Chairman, to discuss the Bill with him.

Chairman: If you want to do so, you will have to take it up later on.

Dr. Trip: We have proceeded on the principle that if there were no real objections to the Bill we should rather not touch it. There are, of course, some provisions in the Bill in regard to which we can make some remarks and to which we can raise objection, but we want to avoid it as much as possible.

Chairman: That being so, it is better to discuss the points raised in this paper, because Dr. Trip says he and his colleagues may not agree in regard to every provision in the Bill and he would prefer not to discuss every provision in the Bill with our Committee.

Lala Harkishen Lal: Quite so. I am not at all conversant with the provisions of the Bill to-day. Therefore if I pass over points arising out of the provisions of the Bill I shall have to come back to them.

Chairman: We shall have to discuss it probably among ourselves.

Dr. Trip: If Lala Harkishen Lal discovers any provisions in the Bill which he thinks are contrary to what I state in this memorandum, or if after perusing the Bill he comes to the conclusion that what I state with regard to it is not right, I am quite prepared to discuss such points with him.

Mr. Khaitan: Which Bill has been taken into consideration by Dr. Trip—the Bill which was introduced in 1928 or the Bill as amended by the Joint Select Committee?

Dr. Trip: The Bill that was introduced by the Government in 1928.

Chairman: Your point is that if we find any provision in the Bill which in any way clashes with the proposition placed before us by the experts, they will be glad to discuss it with us, but they will rather prefer not to discuss every item of the Bill because they may not be in agreement with each and every item of that Bill.

Dr. Trip: Yes.

Lala Harkishen Lal: I understand his position all right. It is not for me to say what I should do. Whether you rule the Bill out of consideration by this Committee, or that it may be discussed amongst ourselves, or that it may be discussed with Dr. Trip up to a certain point and not further—I am agreeable.

Chairman: My position is this. We have not been appointed to discuss the Bill. We cannot therefore usurp the functions of another properly constituted body. But there are provisions in the Bill which more or less impinge on the realm of banking and on our terms of reference, and I should be quite willing to discuss them in the Committee. There are, for example, provisions in the Bill about currency which is outside our terms of reference.

Lala Harkishen Lal: I am ready to accept if you say that such and such section may be discussed and others not.

Chairman: I am going to give my ruling at the present moment more in a general way because if I have to lay down we must not discuss section so and so, I shall have to prepare a summary.

Mr. Jamal Mohamed: I want to make a suggestion. As regards the Reserve Bank Bill, if the experts have any objection to criticise it, they need not do so, but if with regard to certain points they want to make alternative suggestions they may do so.

Chairman: As a matter of fact they have said in regard to certain matters they do not agree with the provisions of the Bill, and they have made their own suggestions. At the same time, quite apart from what I may call banking questions, there may be administrative, currency, or other questions in that Bill, and as experts in banking they do not feel quite justified in offering any criticism on those sections of the Bill dealing with them. I think my interpretation is correct.

Dr. Trip: Quite correct.

Chairman: I think for the present you might proceed with the discussion with Dr. Trip on this paper.

Lala Harkishen Lal: Whenever there is a reference to the sections of the Bill I will leave it out.

Mr. Jamal Mohamed: I do not want this Committee to usurp the functions of any other Committee. What I mean is that our enquiry cannot be entirely unconnected with the Reserve Bank Bill.

Chairman: I have already admitted that.

Mr. Jamal Mohamed: Dr. Trip said, if we are going to take up the Reserve Bank Bill, there are certain points on which he may have to say certain things which he wants to avoid. I think it would be better if we informally have the benefit of their advice or alternative suggestions. If you feel that a certain point is outside our terms of reference, that point can be passed over. But where you feel that a point can be gone into, you can allow it.

Chairman: As regards points which relate to banking and in regard to which they differ from the provisions of the Bill, they have not hesitated to give their views in this paper.

Mr. Jamal Mohamed: Are there any other points to which they have not referred here, but in regard to which they would give their opinion?

Dr. Trip: I say this to clear the position. As a whole, and apart from the proposals in our paper, we would adopt the Bill. There may be some minor points with regard to which we should think it advisable to suggest slight modifications but if we had to vote on the Bill we would accept it provided the alterations proposed in our paper were accepted.

Mr. Ramdas Pantulu: Two points may arise for consideration by the Committee: whether the Reserve Bank should be a State Bank or a Shareholders' Bank, and whether it should have branches or it should operate as a single unit at one place.

Chairman: The point whether the Bank should be a State Bank or a Shareholders Bank is within the purview of this Committee, and I take it that Dr. Trip will be perfectly willing to discuss that point. The second point, *viz*.. whether it should have branches or not, is also a banking proposition, and I would allow discussion on that point as well.

Mr. Manu Subedar: I fully understand your ruling with regard to the regulation of discussions between our friends and ourselves. But I thought Mr. Jamal Mohamed went further than that. With regard to discussions among ourselves it may be that a section which appears important to one member may appear unimportant to another.

Chairman: Mr. Jamal Mohamed was only referring to discussions with the experts. During the discussions among ourselves, on a question of that sort, I shall have to give my ruling when the time comes.

Lala Harkishen Lal: On what principle should the scheduling of banks be done?

Dr. Trip: I am not in favour of any schedules. I would leave it to the discretion of the Reserve Bank.

Lala Harkishen Lal: You say that a list should not be attached to the Bill.

Dr. Trip: I am not much in favour of it.

Lala Harkishen Lal: You will leave it to the conductors of the Reserve Bank.

Dr. Trip: I can only say I do not doubt it that conductors of the Reserve Bank will make a good choice.

Lala Harkishen Lal: How would you enable them to test the soundness of a bank?

Dr. Trip: They will make investigations and read balance sheets. They will do it on purely business principles.

Lala Harkishen Lal: Would you kindly enumerate these principles?

Dr. Trip: It is very difficult to do it in a general way. They will have to judge each case on its merits, for what applies to one case may not apply to another.

Lala Harkishen Lal: Pure discretion of the conductors? May I ask one question? We heard a great deal against a class of banks in Bengal. But when the Bengal Committee report comes, we find there are 728 of them, and failures among them were exceedingly few.

Mr. Manu Subedar: Exceedingly rare.

Lala Harkishen Lal: Some people start with a great prejudice against a class of banking, not against individual banks. As we have seen, the Bengal Committee say that failures among a class of banks called by all sorts of names, such as mush room banks, etc., were very rare, and they have put in other good words for them. How will you ensure that the conductors of the Reserve Bank will not start with that sort of prejudice, but will come to a conclusion similar or somewhat similar to that of the Committee and if the Committee is wrong, what is to be done?

Dr. Trip: I cannot say how the Reserve Bank would work in practice. It must be left to it. It will have to investigate all cases; and it will be careful as it will suffer the consequences of any mistake. I am not in favour of a system of scheduled banks.

Chairman: Perhaps it might help Lalaji, if you gave us an account of how the Reserve Bank works in Holland, whether there is no scheduling there, and whether it uses its discretion in deciding whether it should accept for rediscounting bills of a particular bank.

Dr. Trip: Our Reserve Bank makes up its own mind as to the soundness of other banks and corporations. It investigates; it may send one or more representatives for investigation; it may require an auditor's report; and after getting as much information about the position as it can it fixes the maximum business that it can accept from them.

Mr. Khaitan: In the Reserve Bank Bill there are two relations between the Reserve Bank and the scheduled banks. One is rediscounting, and another is that scheduled banks should deposit with the Reserve Bank 7½ per cent. of demand liabilities and 2½ per cent. of time liabilities. Is there any similar provision in the Central Bank of Holland?

Dr. Trip: No. It is left absolutely free.

Mr. Khaitan: Apart from the question whether such a provision is good or bad, how could the Reserve Bank, unless there was a schedule, enforce such a provision?

Dr. Trip: All the banks that want facilities will have to apply to the Central Bank for them.

Mr. Khaitan: Suppose some do not want facilities. Unless there is a schedule or a provision that the Reserve Bank can call on any bank operating in the country to make these deposits, how is it to be done? Supposing the Reserve Bank wanted control over a certain banking institution for the purpose of protecting the depositors, for which purpose the provision was put into the Bill that banks operating in the country should deposit in the Reserve Bank a certain percentage of their time and demand liabilities, a provision could perhaps be inserted in the Bill that the Reserve Bank could call upon any bank operating in the country to make deposits if they wanted to continue banking business and that otherwise it will have to close its doors.

Chairman: On another occasion you expressed the view that if the Reserve Bank were given the discretionary power, any bank which was not put on its list of banks whose bills would be accepted for rediscounting, would go out of business almost immediately.

Dr. Trip: Of course it would be very detrimental to such a bank.

Chairman: I understand that in your country if a particular bank does not get from the Central Bank rediscounting facilities, that bank has very little prospect of doing business.

Dr. Trip: Yes. Of course it depends on the kind of business that the bank does. If a bank cannot get the facilities, one can be sure in our country that it is not a sound bank.

Lala Harkishen Lal: If they want to make any bank unsound, they have simply to refuse.

Dr. Trip: It has not occurred in our country.

Sir Purshotamdas Thakurdas: Do I understand from your reply, to the last question put by the Chairman, that in Holland the inclusion of a bank on the Reserve Bank list is looked upon as a certificate?

Dr. Trip: I must tell you this. There is no official list. There is no publication. The relation between the Reserve Bank and the commercial banks is not published, and nobody knows to what extent they get facilities.

Sir Purshotamdas Thakurdas: But they may know that a particular bank can get facilities from the Reserve Bank.

Dr. Trip: Every bank can carry on its own business with its own money and own resources. Then nobody knows whether it goes to the Reserve Bank or not. It need not have in all cases rediscounting facilities because the banks can go to the Reserve Bank and borrow money on securities they have.

Chairman: Would it be known if a bank approached the Reserve Bank and the Reserve Bank refused it?

Dr. Trip: No, I don't think so.

Chairman: Well, that materially modifies something you told us a few days ago when we were discussing with you the question of licensing and you said this would operate as a practical equivalent of licences. You said the fact that the Central Bank in your country does not give rediscounting facilities to a particular bank would operate as a deterrent to that bank conducting business on a large scale. But if it is not likely to be known, how can it operate?

Dr. Trip: I referred to the big banks, especially with regard to the foreign banks, working in the country. Of course a small bank in a provincial town can perhaps go on without help from the Reserve Bank, but the big bank which wants to do a large business in the country wants to have relations with the Reserve Bank.

Chairman: But in the case of large banks, will the fact that the Central Bank in your country has refused, to accept their bills for rediscounting purposes be known among the other banks in the country?

Dr. Trip: I think there is no possibility of a large bank working in a country without an arrangement with the Reserve Bank for cases of emergency.

Mr. Lamond: In the case of foreign banks?

Dr. Trip: They must be established in the country.

Mr. Lamond: It seems that once a bank was on a schedule, it does not impose any limit.

Dr. Trip: The Reserve Bank can take bills, but it is not compelled to take them.

Chairman: Are we quite clear as to the position Dr. Trip has put to us? There are methods of controlling the other banks without taking deposits from them. That was his point. The deposit condition in the Bill is not a position which was very much welcomed by the large joint stock banks and even to a certain extent by the other banks. Mr. Khaitan's point of view was that whether after dropping this, it may be possible to give the Reserve Bank the authority to control the working of the other banks as far as the policy of the Reserve Bank is concerned. Now from your original reply Mr. Khaitan's point was somewhat met. From subsequent replies it appears that it is not so met. Unless you have this compulsory condition about the Reserve Bank demanding from the scheduled banks a certain percentage of their deposits the Reserve Bank would have no control over these banks at all, but the question arises what control can the Reserve Bank have against the powerful British Banks which are working in India without these deposits?

Dr. Trip: I must say from my experience that I cannot see it otherwise than that even these strong banks would greatly appreciate to have rediscount facilities with the Reserve Bank.

Sir Purshotamdas Thakurdas: That is their option, Dr. Trip.

Dr. Trip: Of course it is their option. I cannot conceive the real possibility of working in a country of this scale without having some arrangement with the Reserve Bank. I may be wrong but that is my experience. You must, moreover, not forget that as I see it the Reserve Bank would have the direction of the clearing business, as we have in Java.

Sir Purshotamdas Thakurdas: Let me remind you of what happened in South Africa. After the Reserve Bank was started they were never able to control the business.

Dr. Trip: I know that, of course. In South Africa that was because that Reserve Bank had not any influence in the country. The first thing to think of if you start a Reserve Bank here is that it should be a powerful, influential body.

Sir Purshotamdas Thakurdas: The prospect of the Reserve Bank having all the influence that is necessary to withstand any occurrence as happened in South Africa . . . . .

Dr. Trip: It would be able to make its influence felt. I state that it is of great importance to a bank to have rediscount facilities with the Reserve Bank on which it can fall back.

Sir Purshotamdas Thakurdas: But it did not happen so in South Africa.

Dr. Trip: No, because they had no influence at all. They did not operate in the foreign exchange market. They were practically outside the business life of the country.

Sir Purshotamdas Thakurdas: Would you not share such apprehensions for the Indian Reserve Bank?

Dr. Trip: No, especially on account of the strong seasonal demand for credit which prevails in this country. I think in that season practically all the banks will have to rely on the Reserve Bank and that will make this Bank very influential.

Mr. Cassels: I think in regard to the South African Bank one of the views was this, that it continued to do commercial business in competition with the other banks and in that way estranged the other banks from dealing with it. There was no sympathy with them.

Dr. Trip: I don't think that this is right. I got another impression from the report of Prof. Kemmerer and Dr. Vissering. They proposed to enlarge the business of the South African Reserve Bank. They told us that the business of the Reserve Bank was too restricted and that these restrictions should be removed.

Sir Purshotamdas Thakurdas: I take it that this memorandum is subscribed to by all of you. What happened in South Africa may happen here.

Chairman: But in South Africa the position itself improved after the recommendations were accepted by Government.

Dr. Trip: I think they are on the way to improvement. They have not reached it yet.

Mr. Lamond: I think they gave up the idea of developing a bill market altogether.

Dr. Trip: I think so. In any case the same recommendation was made by Prof. Kemmerer and Dr. Vissering as I make here.

Mr. Khaitan: At one stage you said that the South African Bank could not control the other banks because they did not deal in exchange. Therefore do you think that in order that the Reserve Bank may have proper control over all the banks here it would be necessary to include a provision that the Reserve Bank should have the authority to deal in exchange?

Dr. Trip: Well, I think according to the Bill they would have the authority to deal in exchange.

Mr. Khaitan: That is quite another matter. It is only for the purpose of exchange. But if the bank, apart from the individual, does not go to the bank or ask it either for gold or gold exchange that is payable in some other country, until then the Reserve Bank could not of its

own volition enter the money market and operate in exchange. Under the Bill of 1928 the Reserve Bank could not do that, but do you think that in order that the Reserve Bank may have full control over the money market it should have the power to deal in exchange?

Dr. Trip: Well, I think it should have that power. I have not the impression that they would not be allowed to do it. But in any case I think in practice they should refrain from the real dealing in foreign exchange business to make profits.

Mr. Khaitan: Supposing one bank, or more than one bank, attempted to be rebellious and did not recognise the control of the Reserve Bank; then on suitable occasions would you allow the Reserve Bank to enter the exchange market of its own volition in order to have a proper control over the money market?

Dr. Trip: Well, I think the Reserve Bank could get control over the money market without entering, apart from the Reserve Bank business, the foreign exchange market. I don't think it would be correct to enter the foreign exchange market in order to bring any of the other banks under the control of the Reserve Bank. But they ought to have, in my opinion, the opportunity of building up a foreign exchange position for themselves, but only to stabilise the position of the rupee.

Mr. Khaitan: You will recognise that it is quite a different matter to build up foreign assets, that is gold assets,

Dr. Trip: Not only gold assets.

Mr. Khaitan: Gold assets are assets held in bullion. That has a very limited purpose. That does not enable the Reserve Bank to obtain a control over such banks as might exist and continue to do banking business in the country with their own resources. As a matter of fact we know that there are already several banks existing in the country which can easily do without going to the Reserve Bank for rediscounting facilities. But in order that the Reserve Bank may serve its functions properly it must have proper control over the whole money market of the country; not simply as regards internal trade but also as regards foreign trade, otherwise the Reserve Bank would be shorn of some portion of its functions and control over the money market of the country. I see one of your recommendations to be that the Reserve Bank should make advances against goods and warehouse receipts. Now similarly could you not stretch your point and say that the Reserve Bank should also be allowed to enter the exchange market in order to obtain adequate control over the situation?

Dr. Trip: I must say that I have not the impression that they would not be entitled to do this. As I read the Bill they are entitled to. You will see that I have emphasised in our memorandum that in addition to the obligation to buy and sell gold and gold exchange the bank will be allowed to purchase and sell the currencies of certain gold standard countries, not only from and to scheduled banks but also from and to persons, who are approved by the Board of Directors.

Mr. Khaitan: You would therefore allow the Reserve Bank to sell?

Dr. Trip: Oh yes.

Mr. Khaitan: They would regulate better if they had full freedom to regulate the market at any time?

Dr. Trip: Yes. But I want to leave it to the Reserve Bank to follow the right policy.

Chairman: As it is, there is a provision in the Reserve Bank Bill of 1928 which will meet Mr. Khaitan's point.

Lala Harkishen Lal: So far as I am concerned, I have reserved my discussion because I am not familiar with the conditions of the Bill. Therefore I must take another subject and leave this until after I have studied the Bill.

11th February 1931.

Lala Harkishen Lal: Now that we have got a copy of the Reserve Bank Bill introduced in the Assembly, I would ask you, Dr. Trip, to indicate to us before we start with questions, what chapters you desire to be discussed and what not, to enable us to facilitate matters and save a great deal of our time.

Chairman: As I mentioned the other day, so far as the Experts are concerned, we are not really discussing with them other matters except those connected with their own suggestions. I do not know whether it is within our purview to discuss the Bill section by section. There are sections which deal wholly with currency which is outside our purview. The consideration of the question whether there should be a Reserve Bank or not is also outside our purview. But what we might profitably discuss and which might reasonably fall within our purview is what the functions of the Reserve Bank should be—whether the Reserve Bank should be a separate bank, or it should be the Imperial Bank or a Government bank or a shareholders' bank, or whether it should be immune from political touch and so on.

Lala Harkishen Lal: With regard to the functions of the Reserve Bank, I suppose you are referring to sections 22 to 28 of the Bill?

Dr. Trip: The note issue is dealt with under these sections. But section 17 of the old Reserve Bank Bill deals with the business of the bank.

Chairman: Dr. Trip has referred to the two tasks of the Reserve Bank, the currency portion of its functions and the credit aspect. We are really concerned only with the credit aspect which is dealt with in section 17.

Lala Harkishen Lal: In section 17 (1) of the old Reserve Bank Bill it is said that one item of business of the Reserve Bank is the collection of money for the Secretary of State in Council. Possibly the word *collection* really means only the acceptance and reception and not collection?

Dr. Trip: I think so.

Lala Harkishen Lal: Section 17 (2) (*a*) in the old Bill reads as follows:—"the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and arising out of *bona fide* commercial or trade transactions, bearing two or more good signatures, one of which shall be that of a scheduled bank, and maturing within 90 days from the date of such purchase or rediscount, exclusive of days of grace". Would you have no objection to deleting the words beginning with "one of which ....." to the end of that section?

Dr. Trip: I have no objection to that except that some limit ought to be maintained.

Lala Harkishen Lal: These being trade bills, I suppose you will stick to 90 days' bills here also?

Dr. Trip: I must say that this is the usual period as governed by the laws of the Central Banks in other countries. But of course there are possibilities in that respect in regard to the extension of the period in order to take into account the conditions of the country. For instance, I remember that with regard to South Africa Professor Kemmerer and Dr. Vissering proposed that the currency of these bills should be up to 4 months. In any case, this matter should be left to the Reserve Bank authorities to decide whether they will avail themselves of the opportunity or not.

Lala Harkishen Lal: And your advice is that the Reserve Bank authorities ought to study the conditions of the country and act according to its requirements.

Dr. Trip: The first aim of the Reserve Bank ought to be to remain in a strong position in order to tide over the seasons of stringency. Therefore, they should not lock up their resources for long periods.

Lala Harkishen Lal: I understand the people who run the show will be competent enough. Therefore, you will leave it to the Bank authorities to study the conditions of their own resources and consider the needs of the country outside according to its requirements?

Dr. Trip: Yes.

Lala Harkishen Lal: In regard to bills in India, I would classify them under three heads, (i) trade bills pure and simple which enable the movement of commodities from one place to another, (ii) agricultural bills, and (iii) industrial bills to the extent of working supplies. Would you not include all these classes of bills to come under the purview of the Reserve Bank?

Dr. Trip: I would not include the last class. I would leave it to the commercial banks to deal with.

Lala Harkishen Lal: And such bills of the commercial banks would not be rediscounted by the Reserve Bank except perhaps those of three months' currency?

Dr. Trip: Yes.

Lala Harkishen Lal: In one case it is discounting and in the other it is rediscounting.

Dr. Trip: Would you please tell me what difference you would make between discounting and rediscounting?

Lala Harkishen Lal: The party who is really the owner is the first party, the commercial bank is the second party. When the second party takes the bill of the first party for discount with the Reserve Bank then it is called rediscounting, whilst when the first party deals with the Reserve Bank, it is called discounting.

Dr. Trip: I quite follow.

Lala Harkishen Lal: But you will not fix any time limit so far as the bills of the commercial banks are concerned. The commercial banks can fix any time.

Dr. Trip: Yes.

Lala Harkishen Lal: But so far as the Reserve Bank is concerned if they are to be rediscounted they should not be for more than three months.

Dr. Trip: Generally it should not be for more than 3 months.

Lala Harkishen Lal: Then with regard to agricultural bills, I note your view is that they should not be of more than 6 months, but some people are of opinion that they should be of 7 months' duration. Are you prepared to agree?

Dr. Trip: I should say that it depends on the position and individual circumstances. I do not know whether it should be 6 or 7 months.

Lala Harkishen Lal: But your view is that it should not be of a very long duration?

Dr. Trip: That is so.

Chairman: But if it is found that 7 months should be more suitable, you would not object to its being substituted for 6 months?

Dr. Trip: I have no objection.

Mr. Sarker: In America the period is 9 months.

Chairman: Even if the period is 9 months you would not object to that?

Dr. Trip: I would leave it to the Reserve Bank to decide.

Chairman: The real point is that you would not object to the Reserve Bank extending the period of 6 months if that was considered more suitable to meet the present conditions of this country.

Dr. Trip: The only point is that it should be limited to a certain extent.

Mr. Ramdas Pantulu: The matter was discussed by the Select Committee on the Reserve Bank Bill and they approved of the 9 months' limit.

Lala Harkishen Lal: It is said that the Reserve Bank can purchase and sell bills under section 17 (*b*). Would you explain how the sales of bills will be done by the Reserve Bank?

Dr. Trip: By open market transactions to restrict its issue of currency. That is the practice of several central banks, but that is not so in my country.

Lala Harkishen Lal: Why I am putting this particular point is because we want help from the Reserve Bank in an unrestricted fashion. If the Reserve Bank would come into the open market and sell bills then it will be doing so in direct competition with other banks. Is that not so?

Dr. Trip: My opinion is that the Reserve Bank should not compete with other banking agencies in order to make profits, but if it is necessary for the proper performance of its duties, the Reserve Bank should not avoid competition. In this respect I may quote the opinion of no less a person than Sir Montagu Norman, Governor of the Bank of England. Giving evidence before the Hilton Young Commission in England he has spoken as follows:—

Referring to the business of a bank, he was asked—

"As regards its business, apart from investments you would not restrict it entriely to rediscounts. *Ans.*—Oh, no."

"You would allow it to lend money?—Yes."

"So that to that extent it might be in competition with the banks?— I should certainly make no provision which would prevent the Cenral Bank, if it thought necessary, from competing with the other banks. It might be very necessary for it to do so."

"Is it not one of the cardinal virtues, as put to us, of Central banks that they do not compete with commercial banks?— It is, but that does not mean that they do not protect the business community from the banks, if necessary".

That is his opinion and he is perfectly right. I think the Reserve Bank should not be permitted to do so for profits. On the other hand when it is necessary to enforce their policy in the interests of the country, the Reserve Bank ought to be in a position to go to the open market.

Chairman: And your view is that it is done so only in the interests of the money market and not as competition?

Dr. Trip: Yes.

Lala Harkishen Lal: In clause (*b*) it is said "that the total face value of bills or notes so purchased or rediscounted shall not at any time exceed one-fourth of the total face value of all bills and notes purchased or rediscounted by the Bank up to that time". This means that the total portfolio is to be very small and the Reserve Bank will have to refuse proper accommodation.

Dr. Trip: This would be an argument in favour of my proposal that the Reserve Bank should be allowed to give credit on warehouse receipts.

Lala Harkishen Lal: To remedy this?

Dr. Trip: Yes, to a certain extent.

Lala Harkishen Lal: You would not fix any other condition as it is with regard to agricultural paper?

Dr. Trip: If so it must only be in the character of an exception, to meet the special circumstances and requirements of the country.

Lala Harkishen Lal: When this condition of one-fourth is placed on the bill portfolio of the Reserve Bank, then that will mean that agriculture will not get assistance to that extent which it stands in need of.

Dr. Trip: My view is that the provision might stand but the same might be supplemented by another clause.

Lala Harkishen Lal: Would you fix any time there also?

Dr. Trip: No, I would leave it to the Reserve Bank.

Chairman: The object underlying that proviso was to secure fluidity, because otherwise the position might arise where the Reserve Bank's portfolio would be full of bills of this class and it might find it impossible to secure fluidity which is essential for the purpose of its operations.

Dr. Trip: I quite agree and it is in conformity with what I said.

Mr. Lamond: It is to ensure a good distribution of the Reserve Bank's business.

Lala Harkishen Lal: That is perfectly true. My view would be that this one-fourth portfolio should be replaced by something else, *e.g.*, some relation to reserves or some relation to capital.

Chairman: There is another point which arises out of the statement you have made which from my point of view requires elucidation. I think you asked whether, instead of restricting the maximum face value of bills of that particular class to one-fourth of the total portfolio of bills, we cannot have a different proviso, namely one-fourth capital or reserves. If you have any concrete suggestion to bring out, I shall be glad to have it discussed.

Lala Harkishen Lal: I have not had time to work out the figures. My own view would roughly be that at least 20 crores of rupees ought to be available for agriculture, but how to bring that 20 crores, I have not worked out. We are out really for two things, *viz.*, more money and cheaper money.

Dr. Trip: If you spoil the Reserve Bank by these principles, I think it would do the greatest harm to the country; therefore even if they grant loans against goods, they ought to be absolutely sure that the goods are marketable goods.

Lala Harkishen Lal: I want to do things strictly in the banking fashion, but at the same time what has to be done has to be done and ought to be done with all possible precautions and prudence. But if the money is wanted and it is not procured, the thing is not done at all.

Dr. Trip: It is much better not to spoil the position of the Reserve Bank. You can never reason from the point of view that 20 crores ought to be at the disposal of agriculture.

Chairman: If we try to put in a limitation based on capital and reserves, it looks as if it might be worse, because the capital is only 5 crores and as it is, this proviso applies to bills coming under clause (*b*); but nothing stands in the way of, say, the Reserve Bank re-discounting agricultural bills of that class which have already been current for three months, the bills being deposited in the portfolio of a commercial bank.

Mr. Lamond: The section deals with commercial and trade transactions. Would you call an agricultural bill a trade transaction?

Chairman: The words used are "drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops." That would not take it away from the category of a trade bill.

Dr. Trip: I do not think so.

Chairman: It is still a trade bill. This special provision is made simply to allow the extra currency of three months.

Lala Harkishen Lal: The view I would take is whether the food enters the stomach. I want to be assured that there is some real substance in these words.

Mr. Manu Subedar: The provision is made to prevent the Reserve Bank from over-investing its funds in agricultural bills and limiting them to this class of bills and giving them scope for other classes of bills.

Mr. Lamond: It is for the commercial bank to decide how the bills are to be given to the Reserve Bank.

Mr. Khaitan: Would you put your question this way: The idea surely is that agricultural bills should be allowed to be held by the Reserve Bank subject to other emergencies which we need not consider at this stage. That being the idea, is there any useful purpose in making the proportion of agricultural bills one-fourth of the total portfolio of other bills or, as

there is a risk of the commercial bills not being in the portfolio of the bank, would you not advise that the amount of agricultural paper that the Reserve Bank is taking in its portfolio may be a percentage of the proportion of some other factor rather than of the portfolio of bills?

Dr. Trip: I cannot say that it would work as well. There should be a relation between the growth of the total bills in the portfolio of the Central Bank and the part that comes from agricultural operations. I think that gives the possibility of a gradually growing number of agricultural bills in the portfolio of the bank. If you have a relation to the capital, it would practically be a fixed relation.

Mr. Khaitan: Would you agree with me in thinking that it may be made one-fourth of the capital and reserves? That will bring elasticity and at the same time ensure the Reserve Bank having liberty to keep in its portfolio at least one-fourth of the capital and reserves.

Dr. Trip: I would have no objection to adopt the alternative limit, either one-fourth of the total portfolio of bills or one-fourth of capital and reserve whichever amount is greater.

Lala Harkishen Lal: I myself would have no objection except that a certain minimum quantity ought to be assured. The words ought to be interpreted now rather than after the Act is passed.

Dr. Trip: Your point is absolutely met by my proposal and you cannot meet it by way of bills.

Lala Harkishen Lal: I did not say that I objected to it. I simply said that it might be objected to and personally I do not object. I want nine months' bills and eleven months' bills. I said that it offends against the canon of liquidity and against the canon of vagueness. There is no definiteness as to how far the warehouse business is to be carried out, whether to the extent of one-fourth, or one-fifth or one-twentieth. In depression, wheat was not moving for nine months until Government came in. It is at that time that agriculturists want money. There are no other bills. The result would be that there would be no agricultural bills in the portfolio. To begin with, we have to find out whether there is any possibility of warehousing coming in within this generation. Even if it comes in, it is not known how far the assistance might go; it might only be nominal.

Dr. Trip: You cannot put the Reserve Bank under an obligation to do something. If you do so, you spoil their position from the beginning.

Chairman: There is the other aspect that at times like the one you are referring to, namely depression, etc., it is a matter of great importance that the assets of the Reserve Bank should not get frozen.

Lala Harkishen Lal: I quite understand that, but Dr. Trip admitted yesterday that all the Central banks are not of one standard or pattern. The Reserve Bank has to adapt itself to the habits of the people and the needs of the people rather than that the people should adapt themselves to the idea of the Reserve Bank.

Dr. Trip: Subject to the condition that the Reserve Bank should in the first place be in a liquid position.

Lala Harkishen Lal: To me milk is the best liquid, but to you water is the best liquid.

Chairman: In some Central banks, the other condition exists, *i.e.*, the limit to this class of bills should be a portion of the capital and reserves or surplus. Even that, Lalajee, would not give us the same accommodation which you have in mind, *viz.*, 20 crores.

Lala Harkishen Lal: 5 crores was simply put in as a proposal, which was started by the Currency Commission, not that I have brought to mind that 5 crores is the right figure.

Dr. Trip: I absolutely disagree. If you want to have more accommodation for agricultural purposes, you must find it not by enlarging the capital of the Reserve Bank, but by enlarging the capital of the Imperial Bank or Joint Stock Banks.

Lala Harkishen Lal: One of the ways to get over our troubles and difficulties is by supplementing provision relating to agricultural bills.

Mr. Buckley: The original figure in the Bill of 1927 was only one-fifth of the total; it was raised to one-quarter in the 1928 Bill.

Chairman: That is the reason why I wanted to know from Mr. Ramdas Pantulu how he was satisfied with one-fourth.

Mr. Ramdas Pantulu: Because one-fourth is more than one-fifth.

Mr. Buckley: It seems to me that as the 1928 bill is drafted Section 2 (*a*) does distinctly refer to commercial or trade bills, whereas section 2 (*b*) refers to agricultural bills.

Chairman: That is why I mentioned whether these two clauses would stand in the way of an agricultural bill of three months' currency passing automatically into the classes mentioned in section (2) (*a*).

Mr. Lamond: There is another point: (*a*) refers to scheduled banks and (*b*) to scheduled or provincial co-operative banks. An agricultural paper of three months endorsed by a co-operative bank would not come under (*a*).

Chairman: I can see light in the midst of these various difficulties. At the present moment there are no agricultural bills and perhaps Mr. Ramdas Pantulu and his supporters thought that to start with one-fourth would be adequate. This is not, if I may say so, a cast-iron document. You have got to begin with something and if it was then established that the needs of the country demanded a higher proportion, a change might be made. So far as I know there is at present a certain number of commercial or trade bills, but no agricultural bills, except the warehouse receipts which are separately dealt with.

Mr. Ramdas Pantulu: The Reserve Bank would find enough of agricultural bills in the market.

Chairman: At present there is no bill market. The difficulty to which you refer is not likely to arise immediately or perhaps during the next generation. When agricultural bills have grown, certainly the Reserve Bank on its own motion, or Government, if the Reserve Bank is not alert enough, would think of modifying the provision. At the same time,

there is the other factor to which you referred and to which Mr. Khaitan alluded and which I know finds a place in the Central bank of some countries, *viz.*, where it gives a certain amount of absolute (not relative) protection to agricultural bills. The question is whether it might not be desirable to put in a second proviso to the following effect: "provided also that the total face value of these bills does not exceed Rs. 20 crores". We might think of these things when we discuss the question among ourselves. I take it that you would have no objection?

Dr. Trip: No.

Mr. Lamond: It also includes promissory notes.

Chairman: Yes, but these notes are based on agricultural produce.

Lala Harkishen Lal: We are looking at things from the business point of view and I maintain that this proviso does not really help agricultural bills. I wanted to bring this to the notice of the Committee and the Experts and I have done it. Dr. Trip realises the force of my point, but he says he has met it by another proviso in his own note, *viz.*, warehousing. Whether this will meet our requirements or not we shall discuss later. I do not understand the words "one of which shall be that of a scheduled bank, or a provincial co-operative bank". These require further modification. The provincial banks' jurisdiction is over co-operative societies and these societies do not cover more than 7 per cent., of the whole agricultural population, while the scheduled banks are mostly urban banks. What is to happen with regard to the produce of the other 93 per cent. of the agriculturists?

Chairman: I shall answer that from Mr. Ramdas Pantulu's point of view. If you allow that work to be taken up by the Reserve Bank, the provincial co-operative banks will never extend their operations, because the Reserve Bank immediately begins by interfering with their operations. I was not on the Select Committee, but as I understand the position, the idea is that the Reserve Bank is on the top of everybody, but down below is the provincial co-operative bank to develop itself and gradually take over the 93 per cent. of the custom with which it does not now deal. Was not that the idea?

Mr. Ramdas Pantulu: That is the idea.

Lala Harkishen Lal: The provincial bank cannot go anywhere until the co-operative societies come in first. There are three difficulties in co-operative societies spreading at present. They have not the money required. People have to be trained better and therefore the speed ought to be slowed down. Attention has not been drawn to thrift, and no effort has been made so far, except in a few cases, to increase the income of the agriculturists. Now the attention of the co-operative movement is being drawn to these three facts, *viz.*, there should be thrift, there should be saving, there should be training and more income. That means that the area covered would be naturally smaller per year than has been in the past. That being the case, I do not see that 93 per cent. of the population would come within its purview within a short time. If the words are altered to "other approved person, moneylender, or indigenous banker", those people might come in.

Chairman: One of our ideas is that the scheduled bank would include indigenous bankers. We are going to fix that up at a later stage. On that point I believe there is a certain amount of agreement.

Lala Harkishen Lal: Then my object is gained. Dr. Trip wants to take out the words 'scheduled bank'. If they stand, then they will include approved bankers.

Dr. Trip: It has to be approved by the Reserve Bank.

Chairman: That again will to some extent be met by your suggestion about the warehouses, because there you do not bring in the signature of the provincial co-operative banks?

Dr. Trip: No.

Chairman: We may have to change these views about warehouse receipts again when we discuss with the two co-operative experts. All that I wanted to point out was that it is generally admitted that we must bring the approved indigenous bankers, *i.e.*, those who satisfy certain conditions in relation with the Reserve Bank. Perhaps there may be disagreement in the minds of one or two; I am simply mentioning a fact which has been subscribed to by many of us. I should put it no stronger than that.

Dr. Trip: Perhaps I might draw attention to that part of my memorandum in which indigenous bankers are referred to.

Lala Harkishen Lal: Would you keep sub-clause (3) of clause 17 of the Reserve Bank Bill of 1928 as it is?

Dr. Trip: I would keep it in order to enable the Reserve Bank to protect the international position of the currency.

Lala Harkishen Lal: I understood that the object was that if, in the course of international trade, these bills drawn on foreign countries were received in India, they ought to be re-discounted in this country.

Dr. Trip: Yes.

Lala Harkishen Lal: But considering India as it is would you leave the limit at one lakh of rupees?

Dr. Trip: I do not see any objection to keeping it. The work of the Reserve Bank in this respect must be of a certain size and I should say that one lakh is not so much.

Lala Harkishen Lal: Do you refer to the total number of bills or individual bills of one lakh of rupees?

Dr. Trip: International bills are in general for larger amounts than one lakh.

Mr. Khaitan: In the jute trade, for example individual bills are for 250 bales. At present prices the jute bales are worth about Rs. 30; so individual bills would be for Rs. 7,500. Even if a person buys 2,000 bales, he wants individual bills drawn in lots of 250.

Dr. Trip: There is no minimum limit with regard to the number of bills and I personally have not invented the limits.

Chairman: I suppose the object of this is perhaps to prevent the Reserve Bank from taking small lots of bills.

Lala Harkishen Lal: Quite so, that is why I asked whether he would not reduce this limit of one lakh. So far as I know, in Calcutta or Bombay, I do not think individual bills are for more than half a lakh; even that is extreme sometimes.

Mr. Khaitan: In my opinion, so far as individual bills are concerned, there ought to be no minimum limit.

Lala Harkishen Lal: Then you will say 'lots of bills of not less than one lakh of rupees' or 'Rs. 50,000'.

Mr. Khaitan: That section ought to be taken away from the bill altogether.

Chairman: But my difficulty is that if there was no limit, there would be a howl about discriminating treatment if, for example, the Reserve Bank did not accept Rs. 500 from one person and accepted Rs. 5,000 from somebody else. It is much better that the provision should be specific.

Lala Harkishen Lal: My view is that it should be lots of so much.

Dr. Trip: Parcels of so much.

Mr. Khaitan: That would be a matter for discussion among ourselves. I am only mentioning that the function of the Reserve Bank divides itself into at least three factors: (1) the control of currency and the international position of the monetary unit; (2) the control over banks so that it might have control over the money market, and (3) expanding and contracting currency, subject to the international position, for the purpose of helping trade, agriculture, and perhaps industries. As regards the second point, control over banks and money market, I asked Dr. Trip the day before yesterday whether in order to obtain control over banks and money market, the Reserve Bank should not be at liberty to buy and sell exchange. Whether the Reserve Bank directly deals with traders or not, I think you will agree with me that it should have liberty in order that it may hold out a threat to other banks that if they did not behave properly, it had the power to deal with traders direct and thus obtain control. From that point of view, there does not seem to be, any necessity or desirability of limiting the minimum amount of exchange bills that the Reserve Bank may buy or sell. Otherwise, if you limit it to lots of Rs. 5,000 or Rs. 50,000, the banks may choose or not choose to go to the Reserve Bank for purchase or sale and thus non-cooperate with the Reserve Bank and then it would have no control over the money market of the country, both as regards its internal as well as its international position. These matters we can discuss later.

Dr. Trip: In my country and in the Dutch East Indies, there is no limit. I cannot decide what the limit should be for this country in view of what the Chairman has said.

Mr. Khaitan: So far as the Chairman's point is concerned, it is met by the fact that the Reserve Bank will never be eager or anxious or desirous of entering the market except when it is necessary for it to obtain a hold over the money market. The Reserve Bank would not care to deal in small bills.

Chairman: I indicated the necessity for some limit, as otherwise the Reserve Bank may lay itself open to the charge of favouritism.

Lala Harkishen Lal: It means that this phrase requires reconsideration—the words at the end of (c).

Chairman: The only point is this, whether our experts have anything to say with regard to that proviso.

Dr. Trip: We have nothing to say apart from what we have said with regard to point 2.

Chairman: That is, apart from liquidity you have no particular reason why that should be modified.

Dr. Trip: No.

Lala Harkishen Lal: In case there are no scheduled banks?

Dr. Trip: I would be prepared to go so far as "promissory notes supported by documents."

Mr. Khaitan: Then Dr. Trip has no objection to retain the words—'promissory notes of any scheduled bank or a provincial co-operative bank'—in clause 4 (*e*).

Lala Harkishen Lal: Clause 5: that is, ways and means advances.

Chairman: Yes.

Lala Harkishen Lal: I don't understand bank post bills in clause 6.

Mr. Khaitan: They are hundis drawn by banks on their branches payable one or two months after they are drawn.

Chairman: They are, so far as I know, a form of demand drafts.

Mr. Lamond: They are bills payable six days after the date of their issue by branches of banks other than those issuing them.

Lala Harkishen Lal: This bill contemplates branches as well as agencies, but here (clause 6) only 'branches' is used. Does this mean that the issue of bank post bills will be restricted to the 5 branches?

Chairman: I do not think there is any question of issue of bank post bills on agencies.

Lala Harkishen Lal: The funds of the bank would be in the 5 branches mostly.

Chairman: That is so.

Lala Harkishen Lal: They are really drawn to get money transmitted, and therefore money should not be taken from the agencies by this method.

Chairman: That is so.

Mr. Khaitan: They are not simply for remittance purposes. So far as I understand, the Calcutta Branch of the Reserve Bank may draw a bank post bill payable in three months; it need not be on another branch; it will be for the purpose of contraction of currency; at certain times the bank may sell its post bills in the market.

Mr. Lamond: They might be treasury bills.

Mr. Khaitan: Just as Government issue treasury bills.

Mr. Manu Subedar: Clause 5 of section 19 prohibits the issue of such bills.

Chairman: Section 19 begins by saying—'Save as provided in sections 17, 18 and 45'. So perhaps Mr. Khaitan is correct. At least my own impression is more or less the same. The agents of the Reserve Bank will be the Imperial Bank and so far as I know it was never intended that these bank post bills should be drawn on agencies.

Lala Harkishen Lal: What I understand is that these bills would be simply loan bills; finance bills, not transmission bills.

Chairman: They may be both.

Mr. Khaitan: It will be a transmission bill if Calcutta draws on Bombay Branch.

Dr. Trip: From our point of view, I can only say that we are not in favour of allowing the Reserve Bank to draw finance bills on its own branches.

Mr. Khaitan: Banks in India do not at present issue post bills. All that they do is to receive fixed deposits. Some people are afraid of fixed deposits because they might require the money during the period for which the fixed deposit may run, and they cannot convert it into cash unless they go to the bank and borrow money at a higher rate than the bank has agreed to pay for the fixed deposit or forego the interest for the period the fixed deposit has to run. It is therefore thought that if the Bank started the practice of selling post bills in the market, they will have the advantage of getting more deposits in that way than through fixed deposits. Once the Reserve Bank sells such bills, the shyness of other banks to do so will disappear. As regards the second point—contraction of currency—if there were no bills in the portfolio of the bank, it will issue post bills and get money from the market, which will really mean contraction of currency.

Dr. Trip: It would be wrong in principle to have in the market a large number of finance bills produced by the banks.

Lala Harkishen Lal: According to banking practice this article should be omitted.

Dr. Trip: It ought to be restricted to remittance bills.

Chairman: I think it covers both remittance bills and finance bills.

Lala Harkishen Lal: Between branches where there is no money to remit there can be hardly any remittance.

Chairman: The reserves of the Government of India will be held by the Reserve Bank and its branches: their agencies do not come in. They will transact the ordinary banking business of Government at various stations, and the reserves will really be lodged either in the Reserve Bank or in its branches at three or four places. These bank post bills will therefore help in the transfer of reserves from one place to another. The existing arrangements seem to me to indicate that the remittance could more easily be conducted through the currency part of the bank's operations.

Dr. Trip: It is not usually a banking transaction.

Lala Harkishen Lal: Does clause 7 relate to the banking department or to the issue department?

Dr. Trip: Banking Department. I will not recommend continuous action on this provision.

Lala Harkishen Lal: It is only a permissive provision.

Chairman: Having made the purchase, it can then transfer to the issue department. It allows the bank a certain amount of discretion. If it were confined to the issue department, then, as soon as it makes the purchase, people may get suspicious about it.

Lala Harkishen Lal: It should not be made a usual practice in the banking department. As agents of the currency department they may do anything. According to certain discussions that we have had, the resources of the banking department would not be sufficient to go round and therefore unless something else comes in, it would be putting a spoke in the wheel.

Chairman: It would reduce the resources at its disposal for other purposes.

Dr. Trip: I did not touch on this point because it is only a possibility that is open to the bank, but now that Lala Harkishen Lal has touched on it I should like to say that in my opinion the Reserve Bank should not avail itself of this possibility to a large extent because I think the reserve funds should be kept liquid for trade and commercial purposes and not locked up in Government securities.

Chairman: But what about their reserves which include both gold and gold securities, and if you take back this provision how are they going to operate in that field?

Dr. Trip: There is a misunderstanding between us; I referred to internal government securities, but this proviso is as regards foreign securities, and from that point of view I should have no objection. Of course I think 5 years is much too long.

Chairman: Apart from that it may be a very necessary provision.

Dr. Trip: Yes.

Mr. Manu Subedar: It will be necessary for the bank to purchase securities in order to enable it to borrow under section 14 and give securities for such borrowing if necessary. They will require some power to purchase securities.

Dr. Trip: It would of course be necessary for a minimum cover for the issue of notes in the country itself.

Lala Harkishen Lal: Then it is the currency department. As regards clause (*a*) of section 8, does the word "deposits" mean current deposits on which no interest is paid?

Dr. Trip: Yes.

Lala Harkishen Lal: If two-fifths of the liabilities are held in securities, it may make the funds frozen. Some people would object to that.

Dr. Trip: It will be so if it is done to a large extent. There is no free market for Government securities in this country. If the Reserve Bank could dispose of its Government securities at any moment, we should have no objection. I think it would be detrimental to trade to lock up money in Government securities in this country.

Chairman: There are other provisions to control this; *e.g.*, (*b*), (*c*) and (*d*).

Dr. Trip: There is a limit of course. But I know that the Imperial Bank holds a large amount in Government securities, and from the standpoint of liquidity I should like to say that it will not be advisable for the Reserve Bank to do likewise.

Mr. Manu Subedar: It is only a maximum provision; it is not the minimum.

Dr. Trip: Surely in the years to come I should like that the Reserve Bank should not do it.

Chairman: Please see clauses (*b*) and (*c*).

Dr. Trip: I know, but still it would not be advisable for the Reserve Bank in its first years to enter this field to a large extent. I should very much prefer that they gave advances for trade purposes and agricultural credit.

Chairman: You would yourself prefer that the investment should be confined to the aggregate amount of the share capital of the Bank and its reserve fund.

Dr. Trip: Certainly.

Chairman: Would it not affect the power of the Reserve Bank to interfere in cases of abnormal movements in the money market if they are not able to buy Government securities?

Dr. Trip: I have the impression that if the Reserve Bank holds a large amount in Government securities, it could not get rid of them again. If it could always sell them, it would be a different case. I have no objection to the Bank buying treasury bills which have a currency of 3 months or 6 months, but to lock up its money in long-term Government securities would not be advisable.

Chairman: Clause (*d*) limits the investment in long term securities. Clause (*c*) refers to short-term Government securities. In clause (*b*) we come down practically to treasury bills. These provisions taken together meet your criticism and give the bank a certain amount of freedom to regulate the money market.

Dr. Trip: I have no objection to keeping these provisions in law, but I would advise that the Reserve Bank should be very careful and cautious in availing itself of this provision.

Lala Harkishen Lal: As I understand, Dr. Trip thinks the provisions should be there, but the Reserve Bank should be cautious not to lock up any portion of its deposits in Government securities. In other words instructions should override law.

Dr. Trip: There will be no instructions; it will be left to the discretion of the Bank.

Chairman: The law is not obligatory. The Bank cannot go beyond the maximum limit, and that it should go up to that is provided for nowhere in this Bill.

Lala Harkishen Lal: So far as I am concerned, I think that law should go only to the extent to which practice corresponds.

Chairman: We will discuss it among ourselves. These provisions will not be worked by Government, but by governors who will be businessmen.

Lala Harkishen Lal: In clause 11 would you not bring in the Indian States? Why I am asking this question is this; it is stated here that shares may be held in Indian States.

Chairman: That is permissive. If you want to put in this provision without getting the permission of the Indian States there may be trouble. There may not be trouble if you have a federal government, but at the present moment there will be trouble. As it is, the clause you refer to refers to territories of Indian Princes and Rulers in India. It refers to the people inhabiting these states.

Lala Harkishen Lal: They are British Indians living in Indian States.

Chairman: They may be British Indians or non-Indians.

Lala Harkishen Lal: I will not raise much trouble here. The only thing is it ought to be made clear on page 3 at clause (6) (*e*).

Chairman: That certainly makes no provision for investment in shares by the rulers of the territories themselves.

Lala Harkishen Lal: It is not excluded either.

Chairman: There are other laws which stand in the way of that.

Lala Harkishen Lal: The later legislation takes precedence over an earlier measure on the same subject.

Chairman: This clause only states that people in these particular territories will come in on the Delhi Register. It does not make any overriding provision with regard to investment in shares.

Lala Harkishen Lal: If your reading is correct that they are excluded, I have nothing to say. But if it is not, both the sentences should correspond with each other.

Chairman: The position is made clear in clause 4: no person who is not domiciled in India or a British subject ordinarily resident in India, shall be registered as a shareholder or entitled to payment of any dividend on any share.

Lala Harkishen Lal: 'Domiciled in India': that is what struck me. If it had been 'British India' I should not have raised the question. It may be an omission in drafting. It will have to be considered.

Mr. Manu Subedar: If they are to act as agents for the States, and if our idea is to have a strong central bank which will rope in all the resources of the country, from a purely banking point of view, would it not be right to have all collections of cash of Government and cash in the country coming to one place.

Dr. Trip: Absolutely.

Lala Harkishen Lal: On page 5 you lay down:—

> To avoid misunderstanding it may be added that the Reserve Bank need not necessarily avail itself of this opportunity to a large extent: the mere fact that the opportunity exists will enable the Bank to exercise strong influence on the level of the rate of interest.

When I was talking about the quantity of bills you said that you would take away the warehouse receipts.

Dr. Trip: It would not be necessary for the Reserve Bank to make advances on warehouse receipts to a large extent to traders direct apart from banks. But they can do it to a large extent through the intermediary of banks. The bank could go to the Reserve Bank and say, 'I have no bills; I have warehouse receipts; can you take them from us?' The Reserve Bank would thus be enabled to give money on warehouse receipts.

Lala Harkishen Lal: You say that warehouse receipts should not be taken in large quantities from whichever source they come.

Dr. Trip: Perhaps I was not very clear in this respect. If the Reserve Bank could get enough bills or enough other securities from banks or from people they want to deal with in the first instance, then it need not give large credits to the owners of the goods themselves. It should avail itself in the first place of the intermediary banks with which it wants to work.

Mr. Lamond: You want to replace section 18 by this suggestion.

Dr. Trip: Replace or extend the section.

Lala Harkishen Lal: You are all the time thinking of the Reserve Bank. I am all the time thinking of the borrowers. So far as the borrowers are concerned they have to be satisfied with words. So far as the Reserve Bank is concerned that has to be satisfied with investment. It is a different point of view from which I am asking this question.

Dr. Trip: I want that the Reserve Bank should have enough scope to make itself felt in the country.

Lala Harkishen Lal: You say that the Reserve Bank should have enough opportunities of investing its reserves.

Dr. Trip: Yes.

Lala Harkishen Lal: I want, so far as the agriculturist is concerned, that he should have, if not a lion's share, at least a fair share of the reserves of the Reserve Bank. Agriculture is our main stay or our only stay, and the Reserve Bank ought to look after the interests of agriculture and agriculturists, and then of course industries and trade.

Dr. Trip: I agree if it is compatible with sound policy, which must prevail in all cases. In the first place have a sound Reserve Bank, and then of course it has to serve as far as possible the requirements of the country. We cannot sacrifice soundness to the interests of borrowers.

Lala Harkishen Lal: A smaller bank than a bank with a capital of 5 crores will be sounder than the latter, being smaller.

Dr. Trip: Rs. 5 crores is quite proper.

Lala Harkishen Lal: What I am saying is that soundness will be secured by a much smaller bank, because its funds will be in the best securities. What I understand from the soundness of a bank does not mean 'choice of securities', but 'the method of investment.'

Dr. Trip: I lay the fullest stress on the duties of the Reserve Bank with regard to the local and international position of the rupee.

Lala Harkishen Lal: According to your ideal, there should be intermediary banks so far as the requirements of industry and agriculture are concerned.

Dr. Trip: Yes.

Lala Harkishen Lal: According to Dr. Trip our problems are to be solved by more agricultural and industrial banks.

Dr. Trip: I include among intermediary banks the commercial banks. The question of industrial banks has been discussed with Dr. Jeidels.

Lala Harkishen Lal: You say 'this is the result, not of lack of organisation, but mainly of the fact that, for the time being, the fundamental conditions for such a bill market are lacking'. Then you say generally that you need not go into detail with regard to this subject. I should like to have the details if you don't mind. I should like to know those conditions because when people are organising things, there are pitfalls into which they should not fall.

Dr. Trip: I think the conditions are a thorough knowledge of the position of the signatories to the bills and of the character of the bills especially with regard to the question whether the bills that come to the market are really trade bills and not finance bills.

Lala Harkishen Lal: Or the fundamental conditions are assurance of some parties and assurance of being real trade bills. Any other?

Dr. Trip: No.

Hala Harkishen Lal: Then you say this method is to improve the present conditions which are not well organised. You know how it is done at present. Have you any other suggestion to make to improve that immediately?

Dr. Trip: It is always very difficult to improve a situation immediately. I think all improvement must be gradual, and we can only give the general lines which in our opinion must be followed.

Lala Harkishen Lal: No immediate steps occur to you at present with regard to the present methods?

Dr. Trip: What steps could be taken as regards the bill market I will come to later on. Apart from these steps we advocate the improvement and extension of the warehouse system. The ultimate aim would be, in our opinion, to cover the country with a widespread net work of warehouses or godowns, adapted as much as possible to the requirements of the various parts of the country.

Lala Harkishen Lal: It is a tall order. I mean it is a big thing.

Dr. Trip: Of course it is a big thing which must gradually grow. We have got for instance, if I may refer to the Dutch East Indies, several warehouse companies, whilst some commercial banks and many traders have their own godowns.

Lala Harkishen Lal: What is the area of Java? Have you any idea of the quantity of goods in a warehouse, the maximum or minimum?

Dr. Trip: The area of Java is about 2,400 square geographical miles. Your question about the capacity of warehouses, I cannot answer.

Lala Harkishen Lal: How many Javas would have to be put together to cover India?

Dr. Trip: A great many.

Lala Harkishen Lal: How many warehouses have you in Java, a thousand?

Dr. Trip: I don't know, perhaps more.

Lala Harkishen Lal: I am asking because the warehouses of Java might be very different from those in India.

Dr. Trip: I cannot see that it has anything to do with my proposal. There may be difficulties, and I expect that there are difficulties. There are difficulties and objections to every proposal. It is my opinion, and that of my colleagues, that the direction, we mentioned, should be followed. It is for you to decide whether you agree with us or not.

Lala Harkishen Lal: My aim is to get some information which would help us immediately.

Dr. Trip: I am only a weak man as you are and we cannot change things immediately.

Lala Harkishen Lal: In Java have you one big private company? One big private company would be an impossibility to cover the whole of this country.

Dr. Trip: As I said we have in Java more than one company and many private godowns. If it is an impossibility, to have one big company you can have provincial companies with a network of provincial branches. In any case the fundamental requirements would be, that the Reserve Bank and the banks in general could accept the warehouse receipts of these companies, without doubt about the solidity and the soundness of their position and work.

Lala Harkishen Lal: One big private company or several.

Dr. Trip: I agree to that.

Lala Harkishen Lal: Then you say, that we are to create an instrument which is acceptable to all parts of the banking organisation. Can you give us the form from another country which this instrument takes?

Dr. Trip: I should say that this instrument is an ordinary warehouse receipt. I mean an instrument issued by such a corporation that is so sound that if the corporation issues a receipt it is acceptable to all parts of the banking community.

Lala Harkishen Lal: That means from the point of view of the issuer.

Dr. Trip: Yes, with regard to his financial strength and standing.

Lala Harkishen Lal: You have also in that paragraph brought in the words "non-perishable, readily saleable goods". What does that mean?

Dr. Trip: That is goods that keep their value during the time that the credit is given.

Lala Harkishen Lal: I think most agricultural produce is perishable.

Dr. Trip: It is only a question of time. Take sugar for example—sugar is perishable after a year or so.

Lala Harkishen Lal: Then you say that the forces of Government and business life in India should be concentrated on the construction and development of such a system. How would you bring the Government in?

Dr. Trip: In the first place with regard to the Railway warehouses. The Railways in this country are mostly in the hands of the Government, are they not?

Lala Harkishen Lal: Any other suggestion so far as the Government is concerned?

Dr. Trip: I cannot say at this stage.

Lala Harkishen Lal: How could the Government come in? What we want to know is under what conditions and under what terms ought we to go to the Government to help us in this matter?

Dr. Trip: Well if it is framed in such a way that it is really to the benefit of the country as a whole, I could consider the possibility of the Government taking part in the shares of such a company.

Lala Harkishen Lal: Then you say 'considerable difference of opinion on the causes of this phenomenon exists'. The reasons mentioned are the development of the cash-credit system, the reluctance of banks to discount these bills. Well I mention one or two other reasons and you may kindly consider whether they are also in the way of development. One is speculation. For the last few years the trader has never been certain whether the customer does not enter the speculation field at any time.

Dr. Trip: That is of course lack of knowledge of his position.

Lala Harkishen Lal: You will agree about it.

Dr. Trip: I will accept it on your authority.

Lala Harkishen Lal: The other is what is called elasticity in prices. The prices, especially of the sugar, have been disturbing the sugar market a great deal to the detriment of India.

Dr. Trip: In the first place of the sellers. With regard to the bill market . . . .

Lala Harkishen Lal: I am thinking of the bill market. You have mentioned two reasons, one is cash credit.

Dr. Trip: If you have real trade bills the goods are sold for certain prices and that price is the amount mentioned in the bill, and if the parties are good . . . .

Lala Harkishen Lal: But by the time they leave Java, sugar for instance, the price has gone up in such a way that sometimes delivery is not taken.

Dr. Trip: That is a question of foreign bills.

Lala Harkishen Lal: I am questioning that; you draw a trade bill for 3 months on certain commodities. In 3 months the fluctuation in prices is so large that the bill changes from 'real' to 'unreal'.

Dr. Trip: There will always be losses in the banking business. I would try to look at the probable development before I would take the bills. By knowing the financial standing of the purchaser of the goods and of the seller of the goods and the probable development of the market I could safeguard myself as far as possible against losses.

Lala Harkishen Lal: Therefore in addition to the actual trade value you would look always at the parties?

Dr. Trip: That is the main point.

Lala Harkishen Lal: You say it ought to be emphasized at the outset that genuine trade-bills as would be eligible for purchase or rediscount by the Reserve Bank, can only be created if producers and traders are prepared to sell on credit, etc. What is your experience about your enquiry whether sufficient credit is or is not granted in the country?

Dr. Trip: I gathered that from your own information which you gave to Dr. Jeidels. It was, if you remember, with regard to the purchase of sugar, that you said that the business was practically done on a cash basis.

Lala Harkishen Lal: So you would like longer credit for the bills?

Dr. Trip: Of course if one wants to have a bill market it is the first condition in my opinion. If it is impossible to fulfil that condition, you cannot have a bill market.

Lala Harkishen Lal: You say "The published rate of the Reserve Bank should be the discount rate for genuine first-class trade bills and loans even against Government securities should have to pay a somewhat higher rate". You lay down two conditions—for genuine and first-class.

Dr. Trip: In the first place the goods should be sold so that it is a bill from the seller on the buyer. In the second place the parties to the bills should have a sound financial standing and be good for their obligations whilst it would be desirable—but that is not necessary in all cases—to have bank acceptances.

Lala Harkishen Lal: Well, for bank acceptances and bank endorsements would you make any advances?

Dr. Trip: No, because in both cases the bank is liable.

Lala Harkishen Lal: In para. 6 you say "all these means may be useful, but it must be realised that considerable improvement can only be achieved if and in so far as on the one hand the existing prejudice against the rediscounting of bills could be removed and, on the other hand the necessary educational work meets with success".

Chairman: We have here a good deal of evidence that people do not want to go to the Bank because it reacts on the credit. Isn't that so, Mr. Lamond?

Mr. Lamond: The reference was to banks.

Chairman: So it is not confined to the banks. It affects also the custom.

Mr. Lamond: They were referring to rediscounting by banks.

Chairman: That is, people don't want to go to banks to have their bills rediscounted because they feel it will affect their credit. It was mentioned also in the case of indigenous bankers. I am talking of indigenous bankers, not the moneylenders pure and simple.

Lala Harkishen Lal: Talking of indigenous bankers, to strengthen the position and to raise the standard of these bankers. When you were writing that, may I ask had you in mind rediscounting and discounting of the Reserve Bank?

Dr. Trip: Oh yes, I mentioned it at a later stage.

Mr. Harkishen Lal: But you had it in mind. Then you say they need not be linked to any banks. The idea has been expressed several times that they ought to be linked with banks. Another idea has been expressed here that it will improve their position if they comply with certain requests. Here you say a third thing—co-operation. Do you replace these two matters with the advice you have given here?

Dr. Trip: I must say the linking of the indigenous banks to other banks seems to me a very difficult problem. I do not think they will be inclined to do that of their own free will, and therefore I say that a better way would be to leave them alone to improve their position by co-operation among themselves.

Lala Harkishen Lal: Another thing was that they should adopt some methods which are common with banks.

Dr. Trip: I should like that they should adjust themselves to those methods of the banks by their co-operation.

Lala Harkishen Lal: Co-operation amongst themselves and also adapting themselves to modern life?

Dr. Trip: Modern banking practice. You will find in our memorandum: "We are not in favour of compulsory measures with regard to the indigenous bankers. They should establish or reform their own associations, which would have to make regulations with regard to rates of interests, publication of balance-sheets and profit and loss accounts, proper book-keeping and auditing, and in general have to take all those steps which seem appropriate to raise the standing and improve the banking methods of their members".

Lala Harkishen Lal: Then you say further "A close contact should be established between these associations and the Reserve Bank in order to enable the latter . . . ." That means the Reserve Bank?

Dr. Trip: Yes, in order to discuss with the Reserve Bank about the regulations and methods of working.

Lala Harkishen Lal: You mean that there should be an association of associations?

Dr. Trip: Associations of indigenous bankers.

Lala Harkishen Lal: Contact should be established between these associations?

Dr. Trip: I do not refer to financial contacts. I mean that the Reserve Bank should influence their methods.

Lala Harkishen Lal: In your memorandum you say: "Under normal circumstances the currency of that country will be preferred where the lowest rate of interest prevails and the money and bill market is so well developed that no doubt can exist about discount facilities being available at any time during the currency of the bill. These conditions are lacking in India. As long as this is the case, trade and industry would be hampered and the cost of imported goods raised by enforcing sellers of foreign goods to draw rupee bills." Does this paragraph refer to rupee bills or to discount facilities?

Dr. Trip: It refers to the possibility of creating rupee import bills.

Lala Harkishen Lal: There are two subjects dealt with here: one suggestion is that if the rupee bill is drawn, there would be improvement in the Indian trade, and another is that discount facilities should be improved.

Dr. Trip: The one is a condition of the other; discount facilities ought to exist before bills can be created.

Lala Harkishen Lal: Discount facilities for other currencies should be first developed.

Dr. Trip: No.

Lala Harkishen Lal: If they resolve or make up their minds to encourage rupee bills, then it can be done, not otherwise.

Dr. Trip: It depends upon the circumstances and upon the standing of the parties.

Lala Harkishen Lal: At present they are non-existent; they are in foreign currencies. To translate them into Indian currency, you want certain measures to be taken by somebody and I take it that that somebody should be the Reserve Bank?

Dr. Trip: That may be the case in future. The most important question is of course the interest rates charged.

Lala Harkishen Lal: If rupee loans have to be encouraged, these agencies should make the first move by charging reasonable rates of interests on these bills and also assuring the people that if they are good, sound and genuine trade bills, they would have no hesitation in discounting them.

Dr. Trip: Yes, but the interest rates are dependent on the conditions and circumstances prevailing in the country.

12th February 1931.

Mr. Manu Subedar: The subject of your memorandum is extremely large and I can only ask you on a few points. But I am not anxious to revive the controversy as to whether the Reserve Bank should be a State institution or a private institution. I am not personally yet convinced that it should be a private institution. Would you please state on what grounds you would advocate a private institution instead of a State institution?

Dr. Trip: I am of opinion that the Reserve Bank must be an absolutely independent institution, free from Government interference with the policy of the Bank and I think that that is better safeguarded when it is a private institution than when it is a Government institution.

Mr. Manu Subedar: We have in this country, Dr. Trip, certain quasi-public bodies, which are constituted as a result of a special Act, whose finances are kept separate, not merged with the finances of Government; who act by means of a Board which is formed in accordance with the lines laid down in the Act. The outstanding illustration of this would be the Bombay Port Trust. Perhaps you are aware of it. If not, I will mention to you that there is no direct interference. Indeed there is no indirect interference by Government in the affairs of this body. They own very large assets, they administer them, they work within the powers conferred and the obligations imposed on them by the Act, and it works fairly satisfactorily. If there was, therefore, another, method of accomplishing the object which you mention without instituting a private company, you would have no objection.

Dr. Trip: I think the task of the Corporation you mention and that of a Reserve bank are quite different and I see more possibilities of the Government interfering with the task of the Reserve Bank than with the task of the Corporation you mention. I think we have already had some experience with regard to the Imperial Bank where the Government, if we are not mistaken, interfere very often and from the Government point of view in a very efficient way.

Chairman: Does that arise in spite of the fact that the Imperial Bank is not a Government institution?

Dr. Trip: That is on the basis of the Act. I have no objection to the Government taking part of the share capital of the Reserve Bank if necessary. But I should prefer that the whole share capital should be taken by private shareholders, if it is possible.

Mr. Khaitan: That was your real point. It was a question whether the Government should subscribe a portion of the capital.

Mr. Manu Subedar: I am coming to that. You have read the constitution, clause 9, and when you say it should be free from Government interference, having regard to the fact that the Governor, two Deputies, 4 Directors and one Government official are nominated by Government don't you think Government have a sufficient weight in the affairs of this concern, apart from the various provisions where many things could not

be done without the sanction of Government and without the knowledge and approval of Government? Do you think the avoidance of Government interference is accomplished?

Dr. Trip: Yes. I have no objection to the appointment of the Governor by the Government.

Mr. Manu Subedar: How about the 4 Directors and one Government official?

Dr. Trip: In my country the Managing Directors are all appointed by the Government. For the Governor, the Government is even free not to follow the recommendations of the Board of Directors. With regard to the other members of the Managing directorate the Government is bound to the recommendations of the Board of Directors.

Mr. Manu Subedar: I am now discussing the situation as proposed under the Bill and I point out to you that if the object of instituting a bank under private ownership is to keep Government influence out, it has not been achieved by the Bill.

Dr. Trip: That depends on the mentality of the Government. If the Government fulfils its task as it ought to be done, I think I have no objection, because I take it that the first duty of Government is to find those men who are up to the task of the management of the Reserve Bank and not to find men who want to please the Government and do all the things that the Government wants them to do.

Mr. Manu Subedar: Do you think Government nomination here is excessive, or adequate or too little?

Dr. Trip: I think it is rather large from the standpoints adopted in my country since with us the members of the Board of Directors are elected by shareholders.

Mr. Manu Subedar: That is what I felt, if the object really was to keep Government influence out. Then Dr. Trip, you would also agree perhaps with me that it is not only the political influence of Government which has to be kept out but the influence of any particular section of the country as against the nation as a whole which must be kept out from the operations of the Central Bank?

Dr. Trip: Yes, and also the influence of the Government with regard to the policy of the Bank should be kept out in all respects. There should be no interference by the Government in the policy of the Reserve Bank.

Mr. Manu Subedar: Quite so. Besides the danger to an institution of this kind, of direct Government interference, don't you think the danger to such an institution is also that some small section of large financial interests might get hold of it? That also has to be guarded against.

Dr. Trip: Oh yes. Of course if the management of the Reserve Bank has a thorough knowledge of that task and fulfils that task in a good way, then I cannot see the possibility of one section of the public having too great an influence on the policy of the Reserve Bank. I think that depends on the men who are in charge of the management of the Reserve Bank.

Mr. Manu Subedar: When an institution is owned by Government, that danger does not exist, but where it is not so, that danger does exist and must be provided against.

Dr. Trip: I cannot see that it should not exist when the Government owns the Reserve Bank. I think the danger would be greater then than when you have an independent management.

Mr. Manu Subedar: The danger would be there, the danger of an institution like this getting into the control, direct or indirect, of a certain section. What precautions would you suggest to avoid that danger?

Dr. Trip: You cannot take any other precautions than to appoint the best men that are available and men of high standing and high character and great knowledge of the task of a Reserve Bank. I cannot see other safeguards.

Mr. Manu Subedar: Even men of very high standing have to obey the mandates of the interests which support them.

Dr. Trip: Oh no. They have to fulfil their own tasks, and if the good fulfilment of the task is contrary to the interests of a section of the population, they ought not to consider that, but they ought to fulfil the task as it should be fulfilled.

Mr. Manu Subedar: In order to have a strong Reserve Bank it would need the co-operation of every section of the population.

Dr. Trip: I do not understand what you mean by co-operation.

Mr. Manu Subedar: It would need the co-operation of the banks; it would need the confidence of the public.

Dr. Trip: Oh yes, of course.

Mr. Manu Subedar: Confidence would depend very largely on the institution and if the institution is such as is open to a large amount of criticism from the public, don't you think, the purpose, the very important purpose, for which the bank is being constituted, might be defeated?

Dr. Trip: Well, I think the confidence of the public depends on the management—how it is done—and on the financial position of the institution.

Mr. Manu Subedar: Also on the personnel of the Board.

Dr. Trip: On the personnel of the Board as well, may be. But if they are men of first-class standing, I think the public confidence would be obtained.

Mr. Manu Subedar: If they are men elected by shareholders it would be necessary to obtain men of first-class standing on the management.

Dr. Trip: Well you speak of the Board of Directors, not of the management. The experience in my country is that that is the case.

Mr. Manu Subedar: The experience in my country is that the shareholders make the most stupid mistakes. They do not know their own powers and rights. A small coterie of financiers get re-elected over and over again. Sexagenarians who are unable to walk, or see or hear, get on the Board.

Chairman: You must take that as Mr. Manu Subedar's personal views, not the views of the Committee.

Dr. Trip: The management of the Reserve Bank has a large influence even in the meetings of the shareholders, and I can tell you that with us the Directors are elected practically in conformity with the wishes of the management.

Mr. Manu Subedar: That is exactly what you have expressed in your note. The shareholders have certain rights and powers which they do not fully realize, and which they do not always exercise.

Dr. Trip: That cannot be denied.

Mr. Manu Subedar: That being so, would you not think that the appointment of Directors selected by shareholders in the manner might, under certain circumstances, be harmful?

Dr. Trip: I cannot see the danger, because I am under the impression that if you have the right man as the Governor of the Reserve Bank he has great influence even on shareholders, and I think if he is the right man he will advise the shareholders in such a way that the right men will be members of the Board of Directors. In any case that is the experience in my country.

Mr. Manu Subedar: See section 9 again, where there are two Directors elected by the Associated Chambers of Commerce; two Directors elected by the Federation of the Indian Chambers of Commerce. Would you or would you not expect men returned by this machinery to be better financiers and sounder men than the men returned by the shareholders?

Dr. Trip: I cannot say whether in financial matters they are better than those returned by the shareholders. As I understand it, it was the intention that these interests should have a voice in the meetings of the Board of Directors.

Mr. Manu Subedar: You read the intention that way. I read the intention in this way, that it was the intention to bring to the forefront on the Board the best men in the community and this was one of the means of securing the best men. I would be obliged if you would compare this method of securing the best men with the other method.

Dr. Trip: I can only say that in my opinion both ways may be to get the best men, the best men from a central banking point of view. But I impress the needs of the country and the need of several classes of the population. I cannot see any objection against those classes being represented on the Board of Directors. Our central banks try to get the best men from the country. If you took all the men from Amsterdam, from the capital of the country, perhaps the men from a purely financial point of view would be better. But they want to have men from the country as a whole and not only from Amsterdam.

Mr. Manu Subedar: You would not know from your short stay in this country the relative positions of the various Chambers of Commerce or of the amount of trade and interest represented by them. Therefore perhaps you would not be prepared to answer as to why in clauses (*c*) and (*d*) it should not be 3 in one of these clauses and 1 in the other?

Dr. Trip: No I cannot say.

Mr. Manu Subedar: I should be much obliged if you would tell me a little about the conditions in Java of which you have most direct personal knowledge and which you have mentioned very relevantly. Have you only one financial centre in Java?

Dr. Trip: There are two main towns in Java, Batavia and Soerabaja. But the financial centre of the island is in Batavia.

Mr. Manu Subedar: You have nothing corresponding to Bombay and Calcutta, the business life verges on one centre?

Dr. Trip: Well, I should say not the commercial life. Most of the financial transactions are done, in any case decided upon, in Batavia. All the head offices of the banks are there.

Mr. Manu Subedar: Have you any seasonal fluctuations in Java?

Dr. Trip: Oh yes, we have seasons with regard to the sugar crop specially.

Mr. Manu Subedar: But you have not got monsoons?

Dr. Trip: We have the dry monsoon and the wet monsoon.

Mr. Manu Subedar: You have no local Joint Stock Banks?

Dr. Trip: No.

Mr. Manu Subedar. Have you anything corresponding to provincial co-operative banks?

Dr. Trip: No, the Rural District Banks are institutions largely under control and management of officials.

Mr. Manu Subedar: Therefore if I may say so without any disrespect to the organisation in Java, the things to settle there are simple?

Dr. Trip: I quite agree with you, they are more simple than here.

Mr. Manu Subedar: Now please tell me the position which your Bank occupies with regard to the other banks in Java? It is a central reserve bank, it is not a Reserve Bank by obligation?

Dr. Trip: No. The other banks are free. They keep thir blances with the Java Bank which is the Reserve Bank; they have facilities from the Reserve Bank and they are working in close connection.

Mr. Manu Subedar: These foreign banks which are working in Java are in a position to borrow in their own country?

Dr. Trip: Yes.

Mr. Manu Subedar: And they also take deposits in Java?

Dr. Trip: Yes.

Mr. Manu Subedar: And yet you are able to enforce your banking rate policy on them?

Dr. Trip: Yes.

Mr. Manu Subedar: You can enforce the rate when you want to bring down the rate; but is it possible to enforce on them when you want to stiffen up the rates?

Dr. Trip: The banks are naturally glad to follow the policy that the Reserve Bank adopts in that direction.

Mr. Manu Subedar: Is it voluntary?

Dr. Trip: Absolutely.

Mr. Manu Subedar: Would you tell us about your banking organisation in Java?

Dr. Trip: The Reserve Bank has a Government Commissioner who is entitled to assist at all meetings of the Directors and shareholders, but is not entitled to interfere in any manner with regard to the policy of the bank.

Mr. Manu Subedar: Have you any office of your bank outside Java?

Dr. Trip: Yes, in Amsterdam.

Mr. Manu Subedar: Do they do the general banking business also?

Dr. Trip: No.

Mr. Manu Subedar: Are they prohibited from taking deposits?

Dr. Trip: Yes.

Mr. Manu Subedar: Are you not allowed to borrow in Amsterdam at all?

Dr. Trip: Yes, in so far as we can deposit gold as security.

Mr. Manu Subedar: For how long can you borrow on such terms?

Dr. Trip: It depends on circumstances. Generally not longer than 3 months.

Mr. Manu Subedar: In view of that what do you think of the provision in section 17 (14) of the old Reserve Bank Bill allowing of borrowing only for a period of one month and not more, for purposes of the business of the bank?

Dr. Trip: I agree that one month limit is too short a period. I think the borrowing refers to borrowing outside India.

Dr. Hyder: It does not mean *only* outside India.

Dr. Trip: I agree, it might be in India or outside.

Mr. Manu Subedar: In section 17 (1) it is said that the bank can accept money without interest from "any other person". Is it not a very general power that is given thereby?

Dr. Trip: Yes, but I see no objection, provided they get money without interest.

Mr. Manu Subedar: But here in clause 14 of the same section there is no mention of interest.

Chairman: Does not borrowing itself connote interest?

Mr. Lamond: I think it does include interest.

Mr. Manu Subedar: According to this provision you see that the bank is prohibited from borrowing in London or anywhere outside India for more than a period of one month. That restriction according to you is quite unnecessary as the bank during certain periods should be allowed to take deposits for longer periods?

Dr. Trip: As I have great confidence in the management of the Reserve Bank I cannot see any reason why it should be so short as one month.

Mr. Manu Subedar: If I retire from India with a large sum of money to London or Amsterdam, I cannot put my money in deposit with the Reserve Bank, which may be the only bank at that place. Is that not so?

Dr. Trip: For instance, the Java bank allow deposits without giving interest for people coming from Dutch East Indies, but after some time the deposits will not be allowed to continue. That is done as a matter of policy.

Mr. Manu Subedar: There should be no legal restriction. Is that your point?

Dr. Trip: I am not much in favour of legal restriction. It is only a principle which is observed.

Mr. Manu Subedar: Apart from the Reserve Bank, are you aware of a specific provision in the Imperial Bank of India Act with regard to borrowing in London. Do you approve of that provision?

Dr. Trip: Yes.

Mr. Manu Subedar: You know there are certain seasons in India when the rates of interest are very high compared with other countries of the world. During these seasons, is it not desirable that the Imperial Bank should be enabled to take money in London and bring it down to this country in addition to the Rs. 12 crores of emergency currency allowed to replenish their cash resources just for two to four months. Do you not think that it would be beneficial to the interest of this country in lowering the rates of interest?

Dr. Trip: I cannot say. If it is beneficial to the country it should be done.

Mr. Manu Subedar: You have referred to two Money markets in your memorandum—the bank rate and the bazaar rate. Is it your impression that the rates prevailing in European commercial circles or in the bazaar are higher in the interior than in the central towns?

Dr. Trip: Yes.

Mr. Manu Subedar: Really speaking, therefore, the prevailing rates are not only high due to seasonal fluctuations which you desire to remove by the establishment of a Reserve Bank but also you have this discrepancy in rates between money available at centres and in the districts?

Dr. Trip: Yes.

Mr. Manu Subedar: What would you do in order to improve the condition of rates in the districts—you know the districts contribute largely to the resources of banks including the Imperial Bank.

Dr. Trip: Conditions are not the same everywhere. I think you can only improve that situation by linking up as much as possible the various parts of the country in regard to the money market.

Mr. Manu Subedar: I want to get your opinion on other methods which would improve the situation. You are aware of the distances in this country and I do not know whether you are aware that the specie in cash and notes are moved down sometimes to distances of 300 or 400 miles in order to lodge them at proper places and that takes something like 24 hours or more according to the nature of the transport available. If some portion at least of this money which is carried from one place to another was secured by the banks it would mean the improvement of the cash position of the banks as a whole. Is that not so?

Dr. Trip: I cannot say that you can penetrate through the country as a whole before you have agencies of the banks there.

Mr. Manu Subedar: I entirely agree but would you not admit that it would be much better if money would pass into the hands of a bank rather than lie idle in the hands of private individuals or even public bodies as it would then become part of the cash resource of the country.

Dr. Trip: That is so, but the bank cannot afford to keep its money idle in its coffers.

Mr. Manu Subedar: Banks generally do not keep their money lying idle but money lies idle only during the period when it is in the hands of the people.

Dr. Trip: But that condition could be bettered only when the net-work of banks increases.

Mr. Manu Subedar: What is your opinion with regard to the cost of remittance in this country?

Dr. Trip: I have the impression that the costs of remittances are higher than in most other countries. I have, however, not considered that point fully. I do know, however, that the cost of remittance is higher than it is in Java, but the conditions and circumstances of the two countries are different.

Mr. Manu Subedar: But if the cost of remittance is brought down, do you not think that the resources available in the country could be better utilised?

Dr. Trip: I agree. If the remittance rates are lowered then it will certainly be helpful.

Mr. Manu Subedar: Supposing money is paid at a branch of the Imperial Bank at one place and allowed to be transmitted to any other account in any other branch free of charge, then do yuo not think that the money in the districts will go to the Imperial Bank?

Dr. Trip: But the point is whether the people generally would do so.

Mr. Manu Subedar: Has it not struck you that the merchants and other dealers in big cities who have accounts with banks and who generally overdraw always pay in whatever they could into the banks to avoid payment of interest as much as possible on the overdraft?

Dr. Trip: I do not see why there is no such inducement in the districts at present.

Mr. Manu Subedar: Because there are not enough banks in the mofussil and because the operations of banks are not sufficiently extensive.

Dr. Trip: That may be so.

Mr. Manu Subedar: The clientele of the banks at present is small and when the clientele increases the resources of banks would also increase.

Dr. Trip: Yes.

Mr. Manu Subedar: You have not thought of any means by which the movement of specie from one place to another could be considerably reduced.

Dr. Trip: I cannot see any means of improvement so long as the population of the country is not better educated generally and so long as they do not adopt the policy of accepting cheques as a means of payment.

Mr. Manu Subedar: That is quite so, but do you realise that even Government do not accept cheques in payment of land revenue at present?

Chairman: But my recollection is that Government do accept cheques in payment of land revenue but only credits the amount after realisation of the cheque. At least, that is my recollection from what I have seen from the Provincial Committee Reports.

Mr. Manu Subedar: Supposing all public authorities were induced to accept cheques would that not improve matters?

Dr. Trip: Yes, certainly, but the point is whether the Government would be prepared to take such risks on a large scale.

Mr. Manu Subedar: But what objection could there be if certified cheques were issued?

Dr. Trip: If that could be done it would improve matters no doubt.

Mr. Manu Subedar: If amounts to be paid were known before hand (as in the case of taxes) and cheques were drawn and certified by the Imperial Bank or other recognised banks and if Government accepted such cheques as equal to cash payments, do you not think that the actual movement of specie could be prevented to a large extent?

Dr. Trip: It might to a certain extent. A large number of transactions can, however, not be made that way. I do not think the cultivator will resort to the cheque habit. If, however, that is possible I think it would be advisable.

Mr. Buckley: The practice of banks is not to certify cheques but to issue cheques of their own after debiting the customer with the amount.

Dr. Trip: That is sensible, of course.

Mr. Manu Subedar: The greatest impediment, in my opinion, is the cost of remittance. Could you tell us the position in regard to the prevalent rates of remittance in Canada or America?

Dr. Trip: I can only say with regard to the position in Java. For remittance by demand drafts the banks charge one *guilder* for remittance of sums above one thousand *guilders* without any limit. One *guilder* is the standard charge.

Mr. Cassels: In Canada money paid to credit of Government is transmitted free of charge by an arrangement between banks and the Government.

Mr. Manu Subedar: Supposing I had an account with your head office and branch at a different place and if I wanted to transfer money from one account to another account, will the bank charge any money?

Mr. Cassels: It is done free if the places are near to one another, say within 300 or 400 miles, but some small charge is made if they are far apart. All depends on the distance and the time it will take to get there. I would, however, say that the rate in Canada is very much the same as that which prevails in England.

Mr. Manu Subedar: With regard to these higher rates in the districts, would you agree with me that the reason why money finds its place in the financial centres is that it could be easily invested in securities or other investments which could be easily sold when the party wants to do so.

Dr. Trip: That is so.

Mr. Manu Subedar: If a man wanted to purchase a security yielding 6, 6½ or 7 per cent., he could always get it in London, but in India there is not a sufficient variety of such good securities.

Dr. Trip: I must say, as Dr. Jeidels has said, that in India the Stock Exchange is not of the same range as it is in highly developed places like London, New York and Amsterdam. But here in India, you can always get Government securities.

Mr. Manu Subedar: Apart from the Government security something with a little sound security is not available in this country, unless you take in risky industrial block or debentures.

Dr. Trip: That is so.

Mr. Manu Subedar: If a land mortgage bank were started and bonds were issued on the security of local land, would you not think that some money instead of going to the industrial and financial centres could more profitably be employed in the districts by investment in these bonds?

Dr. Trip: I find that the Provincial Reports have no great expectations from that idea. Much will depend on the confidence the public would repose.

Mr. Manu Subedar: Assuming that there is a Government guarantee and enough of confidence, then what is your view?

Dr. Trip: It is of course possible to attract some money. In my country these banks are called Mortgage Banks and subject to their conditions they sometimes sell the securities over the counter.

Mr. Manu Subedar: If such bonds existed and if the banks recognised them, to some extent the movement of specie could be avoided and profitably employed. Is it not so? By so doing you are aware that the bonds could be deposited with banks and overdraft arranged on such bonds.

Dr. Trip: Yes, but I cannot see how the movement of money could be improved upon.

Mr. Manu Subedar: The money, at present in the districts comes down from great financial centres or it is invested in banks for periods of 2 to 6 months on the anticipation that it is wanted during the remaining 6 months in the year. The suggestion is that instead of so doing there should be a permanent investment of it and the investor should get overdrafts on the security of those bonds.

Dr. Trip: It would not make any difference. The quantity of money that is circulating in the country would be the same. Generally speaking, I cannot be much in favour of people who want money for short term purposes investing their funds in a permanent capacity. I do not think it would be sound financial policy.

Mr. Manu Subedar: In India there are not many forms of long term investments on which the Imperial Bank can grant loans. If the range increases, the position will improve.

Dr. Trip: You mean that there are now considerable amounts of money that could be invested.

Mr. Manu Subedar: Yes, provided the parties investing in them could rely on going to their banks and getting occasional overdrafts.

Dr. Trip: That may be possible.

Mr. Manu Subedar: In regard to control of the money market by the Reserve Bank, you mentioned with reference to foreign banking institutions that the experience of South Africa was not satisfactory, though it was on the way to improvement. Regulation of credit is one of the most important functions of the Reserve Bank and if the Reserve Bank wanted to do this, how is it going to bring under control foreign institutions which are not dependant on it for accommodation?

Dr. Trip: If the Reserve Bank wants to restrict the currency in the country, it does it usually in order to strengthen the international position of the monetary unit, and if these foreign banks would bring foreign money into the country that would strengthen the position of the national currency.

Mr. Manu Subedar: You are talking of exchange which it may not be very difficult for the Reserve Bank to control. But I am talking of internal credit which is quite different from exchange. Now, foreign banks have a large share in internal banking, and they would, subject to reasonable security, give accommodation of every description. If they engaged in a speculative movement, how do you expect the Reserve Bank to control them?

Dr. Trip: It can only do so by raising its rate which influences also the position of the foreign exchange banks. I can not see that foreign exchange banks, in order to stimulate here a speculative movement, would bring considerable amounts of money into this country, which by the way always involves a risk on exchange.

Mr. Manu Subedar: In order to earn higher rates.

Dr. Trip: If the conditions are favourable for a speculative movement, even apart from exchange banks, the rate of interest will rise and money will flow into the country. You will remember the enormous stock-exchange speculation in America. Money from all countries flowed into America.

Mr. Manu Subedar: Would you admit that the flow of funds from abroad rendered the task of control more difficult for the Federal Reserve Bank?

Dr. Trip: Yes, but that cannot be helped, because all countries are members of the international world organisation.

Mr. Manu Subedar: Suppose the Central Bank took some measures. These would hit the Indians directly, but they would not hit the foreign exchange banks so much because they have another by.

Dr. Trip: If the Indian banks have no international relations, of course, they would be in a weaker position.

Mr. Manu Subedar: In order to place them in the same position as the foreign banks, would you not suggest that rediscounting facilities which the Reserve Bank would normally give should be confined to Indian institutions.

Dr. Trip: No. That would be in my opinion detrimental to the foreign trade of this country.

Chairman: Would not the raising of interest automatically restrict credit?

Dr. Trip: Certainly, as a rule, but if a speculative movement is going on, a rise in the bank rate is not always effective.

Mr. Manu Subedar: You said you were not in favour of the Central Bank itself bringing funds into the country, but you would allow other institutions to bring in funds.

Dr. Trip: I do not think it is the business of the Reserve Bank to bring in funds by borrowing abroad. They should not do so even for short periods. Except in quite abnormal circumstances, when it will be the only measure that can be taken, I think they ought to abstain from it.

Mr. Lamond: How will the Reserve Bank bring in the money borrowed abroad?

Dr. Trip: By bringing in gold.

Mr. Lamond: How will they get it back?

Dr. Trip: By shipping gold again. Of course they could wait if they expect the situation of the country to improve, and they could repay the loan in bills resulting from a favourable balance of payments.

Mr. Manu Subedar: You say that the Java Bank is not artificially built up on the example of foreign countries where circumstances are quite different. Would you allow us the benefit of the same dictum?

Dr. Trip: Yes, as far as it is compatible with the sound principles of a Reserve Bank.

Mr. Manu Subedar: It has been suggested that the seasonal fluctuations of rates in India have been very greatly accentuated by the financial year of Government which is from 1st April to 31st March. Government themselves said they would consider changing it, but they have not done so. Have you any views to give on this subject? The period of land revenue payments which are very large payments in districts coincides with the period when there is a considerable demand for money for purposes of trade movement.

Dr. Trip: Even if you take any other date, say, 31st December, as the closing date, the position would even then remain practically the same. Would it not? That would fall in the busy season too.

Mr. Ramdas Pantulu: Collections begin in December and go up to March. It will be difficult for Government to collect the kists after the harvest is over.

Dr. Trip: I think the busy season begins in November and so the last two months would fall in the busy season too.

Chairman: The precise point mentioned by Mr. Manu Subedar has nothing to do with the financial year. It really relates to the date of payment of land revenue kists. Judging from the local reports some of the local Governments are taking action to meet the difficulty. I think, Lalaji, in your report you said that the Punjab Government is spreading the payment over a series of months.

Lala Harkishen Lal: Quite so.

Mr. Ramdas Pantulu: The Punjab committee proceeds on the basis of the produce being marketed the same day. We have recommended longer time for sale.

Mr. Manu Subedar: Your suggestion is that it should be the task of the Reserve Bank to keep the cover during the lack season in order to be strong enough to increase its credits during the busy season, and you say this would prevent fluctuation. The question is who is going to bear the cost of the Reserve Bank carrying this large reserve during the slack season.

Dr. Trip: They could earn more if they invest the whole amount of their cash resources, but it is not the business of the Reserve Bank to earn as much money as possible. They should serve the best interests of the country.

Mr. Manu Subedar: It would be their primary function to prevent violent fluctuations in rates and to make any necessary sacrifice which may be required for that purpose. But if it is a private bank, it will be dominated by commercial considerations?

Dr. Trip: Allotment of profits is regulated in the Bill. Share-holders will not get a profit of more than 5 per cent. at the beginning and later on perhaps a maximum of 8 per cent., but the main part of the profits goes to the Government exchequer.

Mr. Manu Subedar: At least to the extent of the percentage allowed by law commercial motives would predominate.

Dr. Trip: Shareholders would of course like to get as big profits as possible. But they should know that the primary function of a Reserve Bank is not to make large profits, but to serve the interests of the country.

Mr. Manu Subedar: Therefore it would be most unfortunate if commercial motives predominate in the working of the Reserve Bank. Everything should be done to prevent this.

Dr. Trip: Yes.

Mr. Manu Subedar: It is better for the tax-payer to bear the cost.

Dr. Trip: A Reserve Bank as framed will be unable to make considerable profits on behalf of its share-holders and it should not be guided by the principle of making as large profits as possible.

Mr. Manu Subedar: If the dividends were fixed by law and the capital raised as a national loan, would the class of public holding the securities be different from the ordinary class of security holders.

Dr. Trip: I do not think so.

Mr. Manu Subedar: If the capital is raised as a loan, there will be no danger of getting worse Directors from bondholders than form share-holders?

Dr. Trip: No.

Mr. Khaitan: About remittance of money, it is arranged in this way. I take Rs. 1,000 to the Central Bank at Calcutta and the Bank gives a demand draft on its office in Bombay. The Bank earns interest on the money for the period which should be taken in transit of the demand draft to Bombay—2 nights and a day—and does not lose on the transaction. Why should the Bank make a charge?

Dr. Trip: In Java they do not charge interest.

Mr. Khaitan: Therefore the longer the distance to which money has got to be remitted there is less justification for charging for the remittance.

Dr. Trip: The Java Bank does not charge any interest.

Mr. Khaitan: There is no question of charging interest, they earn interest.

Chairman: Why then should there be any charge at all.

Dr. Trip: They may be charging for cable and other costs.

Mr. Khaitan: If it is T. T. they may ask for the cost of the cable I think Mr. Cassels referred to interest.

Mr. Cassels: I had in mind the transfers made by telegraph so that the man gets the money the same day. There is no question of earning interest, and the telegram has to be paid for. There is a possibility of having to send cash up in the case of remittances to small places.

Chairman: I think myself the charge ought to be reduced, as low as possible.

Dr. Trip: Another item of expenditure is the work that falls on the staff and the costs of replenishing their cash in the branches.

Mr. Cassels: There may be stamps.

Chairman: In your country would they not, as a matter of policy, try to keep down these charges for remittance as low as possible in the interests of banking habit.

Dr. Trip: Yes.

Dr. Hyder: Supposing we had a Reserve Bank here, the dividend on the shares of which is limited to 5 per cent. What is going to influence the prices of shares? Will they not be quoted at a price corresponding to the dividend.

Dr. Trip: The dividend is not fixed. There is a possibility of a higher dividend.

Chairman: See page 26 Schedule III of the Bill.

Dr. Hyder: Taking this case also my point is this. If the dividend is fixed the commercial motive is ruled out.

Dr. Trip: I agree with you. In practice it will be not higher than 7 or 8 per cent. That rules out commercial motives.

Chairman: Mr. Manu Subedar's point was that they might try to secure 5 per cent. when the earnings may not amount even to that. He referred to the profit earning activities of the management and was really confining himself to a minimum of ·5 per cent., I think he put the question, 'Would it not be better for Government to issue bonds and hand over the proceeds of the bonds to the Reserve Bank as its initial capital.' I did not quite understand what he was after, and did not at that stage want to interrupt. Is it a practical proposition for some years to come that Government could float the bonds at a lower rate of interest than 5 per cent.

Dr. Trip: I do not think it would be possible for Government to do so.

Chairman: If that is so, 5 per cent. would be a sort of guaranteed interest, and therefore the operations of the bank must obviously be directed to securing a profit which will be adequate to pay the interest guaranteed to the bond holders.

Dr. Trip: I do not think that it will be very difficult for the bank. They get from Government, let us say on the present basis Rs. 90 or Rs. 100 crores in gold and gold securities. No more than 30 crores of gold need be held during the first five years so that the earning assets outside the country will be about 60 to 70 crores, and it should certainly be possible for them to pay a dividend of 5 per cent.

Chairman: Therefore the position envisaged by Mr. Manu Subedar does not arise. In any case there will be no improvement in that position by Government issuing bonds for the capital of the Reserve Bank, instead of the Bank issuing shares for the purpose.

Dr. Trip: I quite agree. It is a wrong way to issue a Government loan in order to hand over the proceeds to the Bank.

Chairman: I am at the moment discussing the points placed before us by Mr. Manu Subedar. It should not be understood that I am personally in favour of either course.

Lala Harkishen Lal: Bonds might accumulate in course of time in the hands of a few.

Chairman: That is another difficulty: there are various other difficulties.

Mr. Devadhar: I should like to put a limit on the dividend earning capacity of the Reserve Bank.

Dr. Trip: The payment of dividend is restricted. They will get at first 5 per cent. and later on perhaps 7 or 8 per cent.

Mr. Devadhar: As you are not putting any restriction on the capacity to earn profits which will ultimately go to form the reserves, do you say that all the surplus should be carried to the reserve or that some portion of it should be distributed *pro rata*.

Dr. Trip: The limits are in the Bill itself. Please see section 46. I think this regulation is very sound.

Mr. Devadhar: In what way will the Reserve Bank benefit the Co-operative institutions which stand for the financing of the agriculturist and small traders?

Dr. Trip: In the beginning of its career the Reserve Bank can help the co-operative movement by granting loans on the security of Government-bonds. Then they can take bills from the Co-operative institutions as is laid down in the Bill. But at first the Co-operative movement is not likely to get much money from the Reserve Bank, as the Reserve Bank ought to take trade bills. The provision that the Reserve Bank should be entitled to give credit against goods may help the co-operative movement. The possibilities for co-operation between the Reserve Bank and the co-operative movement will grow, especially if the co-operative movement gets more in touch with marketing.

Mr. Devadhar: While answering certain questions of Lalaji, you said that the period for which loans should be given should not exceed six months. But when the Chairman put you the question regarding rediscounting of bills you were in favour of allowing a period of six months in addition to the original period of 3 months.

Dr. Trip: I should be in favour of leaving it generally to the policy of the Reserve Bank itself. Of course if the bills are for a longer currency it is possible to rediscount them after part of that currency is over.

Mr. Devadhar: The period you suggest is not 9 *plus* 3?

Dr. Trip: No.

Mr. Devadhar: The distribution of loans to co-operative societies, should take into account the interval between two harvests. In certain places there is only one harvest. Are you in favour of giving a longer period?

Dr. Trip: I do not think it can enter the working sphere of the Reserve Bank. It must be left to co-operative banks or to commercial banks.

Chaudhri Mukhtar Singh: If I understood rightly, in other countries the cost of remittance depends upon distance and not upon the amount.

Dr. Trip: In my country distances are not very great. In Java the amount generally speaking does not come in for remittance by demand drafts. There is only one fixed charge for sums of more than one thousand guilders.

Chaudhri Mukhtar Singh: Is there any country where the amount also determines the charge?

Dr. Trip: I think so.

Mr. Cassels: In most countries there is a percentage for large amounts.

Mr. Ramdas Pantulu: If Government comes to an agreement with the provincial co-operative bank and the latter makes itself responsible for a certain sum of money to Government, do you think that co-operative societies can be used as media for transference of funds? I mean for Government purposes, in connection with land revenue for instance.

Dr. Trip: I think that would be a possibility.

Mr. Lamond: You say:

> "The absence of a mechanism which by expanding credit can meet the seasonal demand for money is mainly responsible for the variations in the Bank rate".

Do you think it is actually so?

Dr. Trip: I do not talk about the level of the interest rate in the country throughout the year. That of course depends on supply and demand. I refer to seasonal fluctuations which could be reduced if there is an institution which will keep itself strong. I should like to restrict fluctuations as far as possible to the influence of trade conditions.

Mr. Lamond: You refer to Government as controlling currency and to the Imperial Bank as controlling credit. Government being the biggest investors, do you think you can remove the power of the Government from the market by the creation of the Reserve Bank?

Dr. Trip: No. The Reserve Bank cannot prohibit Government from borrowing money in the market. They can only try to convince Government as to what they should do, whether they should try to borrow abroad or in the country itself, and give Government information as regards the money and investment markets.

Mr. Lamond: You would be in favour of the Reserve Bank controlling Government borrowing in this country.

Dr. Trip: There would be very close contact between the management of the Reserve Bank and the Government Finance Department, but the Bank should be free to follow its own policy.

Mr. Lamond: I think I am right in saying that sentiment in this country prefers borrowing in this country.

Dr. Trip: That should be, of course. But you have to make your choice where you do not want to harm, trade, commerce, or industry, by a high rate.

Mr. Lamond: Take the case of industry and commerce. Last season when the bank rate was up to 7 per cent. the call rate was 2½ per cent. in Bombay, and the rate was absolutely ineffective.

Dr. Trip: But the call rate is, in my opinion, quite apart.

Mr. Lamond: But a difference of 4½ per cent. is very large.

Dr. Trip: The call rate can in my opinion not be compared with the bank rate. We had such differences in Java too.

Mr. Lamond: I am just pointing out that it is not trade which puts the bank rate up very often.

Dr. Trip: I agree that at present it is not trade. In this respect I may point out, that I think it detrimental if emergency currency can come in only on condition that the bank rate should be at least 6 or 7 per cent. Such a provision would of course not prevail with regard to the task of the Reserve Bank. But now the Imperial Bank is forced to raise its bank rate in order to meet the emergency currency condition.

Mr. Lamond: In this paragraph you say that money is in strong demand. Do you mean funds or currency?

Dr. Trip: I mean accommodation from the banks.

Mr. Lamond: Accommodation from the banks without demand for currency won't affect the bank rate very much.

Dr. Trip: How do you get the currency into the country?

Mr. Lamond: From the Imperial Bank.

Dr. Trip: That can only be done by borrowing from the Imperial Bank.

Mr. Lamond: It is not a question of currency. It is only the transfer of book entries. It does not affect the cash. It is only when money is required to move the crops. . . . . .

Dr. *Trip*: That is another question of course. But I think your credits go up to a large extent in the busy season. That is of course accommodation that is wanted.

Mr. Lamond: You deal with the difficulties about the money market here and you give your idea about economising and you point out clearly what the difficulties are. Then you go on to your suggestion about the Reserve Bank and pass remarks about the Act which was put up in 1928 and you come to this conclusion. "During the slack season the position will be that there will hardly be any business for the Reserve Bank to do. . . ."

Dr. Trip: If you restrict the operations of the Reserve Bank to the discounting of bills from the scheduled banks.

Mr. Lamond: That is, unless you give the Reserve Bank commercial powers it would not be effective?

Dr. Trip: That is my opinion. It won't be effective to such an extent as will be desirable in order to tide over the busy season.

Mr. Lamond: In that case is it necessary to put on India the expense of running a Reserve Bank of this size?

Dr. Trip: Oh yes, I think so, because in the first place it is of the greatest importance for the international position of the currency. In the second place the Reserve Bank must be formed in such a way that they are in a position to tide over the busy season. You must avoid creating in this country a situation as was created in South Africa and if you can achieve this aim I think it is of the greatest interest to the country to have a Reserve Bank.

Mr. Lamond: Is not that too expensive for the country? Someone has got to pay for it. Who do you say should pay for this Bank? I am talking of the cost of the Reserve Bank. You must realize the Government are making a certain profit. They have to lose that. Then they have to pay a dividend on the 5 crores. Could you not get a much cheaper way?

Dr. Trip: I don't think so. I don't see in what other way you can reach the same aim on a sound basis. You must look to the future of the country. If India is to be a highly developed and strong country in the world, it must have a Reserve Bank. I feel it is a great pity that it was not started 50 years ago.

Mr. Lamond: To go back to the future of the Imperial Bank. This is not my own idea but it is an idea which has been discussed by business people in this country as to the possible future of the Imperial Bank. The Imperial Bank was formed in 1921 by amalgamating three Presidency Banks, Bengal, Madras and Bombay. At the time of the amalgamation they had a capital of Rs. 3 crores with a reserve of an equal amount. At the amalgamation they increased the capital by 150,000 shares making another 1 crore 87½ lakhs. Since the amalgamation they have increased the Reserve Fund to Rs. 5 crores. The idea of the amalgamation was to bring about what this Reserve Bank is to bring about. The idea was to get the amalgamation going, and then gradually get the Imperial Bank to be the Central banking institution. This was the idea up to 1926 when the Royal Commission sat and recommended the Reserve Bank. Now the business people discussed this matter and said: "Well the Imperial Bank was formed to bring about what the Reserve Bank will now do. There are complaints from business circles in India that through the Imperial Bank being an All-India Bank and having a Central Board they have lost touch with it. The only thing for the country is to go back to the Presidency Banks. The idea of the amalgamation has fallen to pieces; therefore go back to what people were satisfied with before; have 3 banks operating in different districts and closely co-operating with each other. The banks will be in much closer touch with the local centres than they are at present." I do not agree with the suggestion that we are not in close touch but it is a suggestion which was made by a business man.

Dr. Trip: I cannot say whether that complaint is justified or not. I must say I have never heard this complaint in this country.

Mr. Lamond: I do not say the statement is not wrong, but the fact remains that people do believe that by going back to the three banks they will be in closer touch with the people.

Mr. Khaitan: May I know, Mr. Lamond, whether it is a European Commercial circle that has expressed this view, or Indian?

Mr. Lamond: I cannot say. I just brought it up because it has interest. The idea was that there should be 3 provincial banks all formed by this 11 crores capital which the Imperial Bank now has?

Dr. Trip: I should think it would weaken the banking position of this country.

Mr. Lamond: Have you thought of the alternative?

Dr. Trip: No. But I think that would be a big step back from the development that you see in every country. I think the development of the big countries is in the direction of amalgamation and starting strong institutions.

Mr. Lamond: The institution would still be strong.

Dr. Trip: The 3 institutions may be strong, but I don't think they could work on the same lines as one big institution. They would have more local character, I fear.

Mr. Lamond: They would have local character, but that is what the people want.

Dr. Trip: It is only a sentiment. You will find sentiment everywhere. I don't think the three banks could take into account the interest of the country as a whole in the same way as the Imperial Bank does now.

Mr. Lamond: The only difference is that the 3 banks would be independent but working in co-operation. Instead of having a Central Board over them they would be the final authority.

Dr. Trip: As I see the situation in this country I fear that there would be too much local interest coming into what is now the Imperial Bank.

Mr. Lamond: Would there be any objection to that?

Dr. Trip: I see some objection, yes.

Mr. Rushforth: What about the Federal Reserve banks with independent rates. They work independently, don't they?

Dr. Trip: The Federal Reserve Board is the main authority. And if the bank rate goes in a certain direction practically all the Reserve Banks go in the same direction.

Mr. Rushforth: In the same direction, but not at the same level.

Dr. Trip: Not at the same level.

Mr. Rushforth: Are not regional developments the same as contemplated by Mr. Lamond?

Dr. Trip: We talk now about commercial banks.

Mr. Rushforth: You are now speaking entirely from the commercial point of view?

Dr. Trip: Yes. And I think as this country will develop there will be much scope in future for other strong institutions. But I think the first thing to do is not to weaken the position of the Imperial Bank and not to restrict its work in order to enable it to go as far as possible.

Chairman: Arising out of Mr. Rushforth's question—in India do you advocate a uniform bank rate all over the country, or do you think that

different rates in the 3 principal money markets, or perhaps in the different provinces, will be more useful from the point of view of trade and industries.

Dr. Trip: I think the more connection there is between the principal money markets of the country the better it is and that would lead to the conclusion that as far as possible the rate of interest should be the same.

Chairman: But you still qualify yourself by using the words "as far as possible.".

Dr. Trip: Yes, as far as possible, because I think it is not possible to reach the same rate of interest over the whole country.

Chairman: Is it your intention that the Reserve Bank should have different rates at different places?

Dr. Trip: No, not the Reserve Bank. It can only touch the centre of the banking community.

Chairman: But the intention was to have branches at both Bombay and Calcutta. If I am to pursue Mr. Rushforth's line of thought which relates to America, if the requirements of trade and industry demand it, there ought to be different rates, bank rates, at Calcutta and Bombay. Now would you at all support that idea?

Dr Trip: I would be against that idea, because I cannot see why a part of the country should get their accommodation at a lower rate than another part of the country. That would be the result if you have different rates.

Chairman: But according to Mr. Rushforth that is the position in the United States of America.

Dr. Trip: That may be the position in the more outward districts, but I think generally with regard to the principal centres there is no great difference between the bank rates.

Mr. Rushforth.—I have noticed different rates in Boston and New York. The rate of interest represents the price of money. In a highly organised country with one perfect market there may be only one price The idea of regional rates implies many countries with different prices That would be a retrograde step?

Dr. Trip: Oh yes.

Chairman: That is a good point. That is the price of money having reached a uniform standard you think that it ought to be allowed to remain on a uniform standard all over the country instead of being differentiated at different centres?

Dr. Trip: Yes.

Dr. Hyder: I wonder if you know the past economic history of this country. Before we had railways, etc., we used to sell in one district, say wheat, at 5 seers to the rupee. 100 miles further the rate might be 10 seers to the rupee. Nowadays through this linking up, the price of wheat whether at Shahdara, Lyallpur or Calcutta, tends to be the same. If we went back that would be really going back to the old system.

Dr. Trip: I quite agree with you. My idea is free trade. If you go and split up this country into different parts there would be practically no free trade.

Dr. Hyder: If you get the price of any commodity and compare it with the price of 60 years ago, you find there is a tendency for one price for the same commodity.

Dr. Trip: That is, I think, a very desirable and very natural development.

Dr. Hyder: There is only one point which I want to make clear. It may be to the advantage of a province to be favoured with a lower rate, but taking all the provinces together it is much better that the rate should be raised a little higher in that one province in order to lower it in other provinces so that the benefit is uniformly spread over the entire face of the country.

Dr. Trip: I am convinced that the interest of the country as a whole must prevail.

Mr. Lamond: The discount rates in the different bazaars in India vary considerably. The reason for that in my opinion is this, that you have a group of the indigenous bankers working in Bombay, another group in Calcutta. When business is brisk in Bombay you find that group puts up its bazaar rate. Money does not come from Calcutta. It does not work in the Bombay bazaar. Money may be cheaper in the Calcutta bazaar and dearer in Bombay. That is my explanation for it.

Mr. Khaitan: That is one of the complaints, that what is called the bazaar money market is not properly linked up.

Mr. Lamond: Your Reserve Bank discount would help that.

Dr. Trip: I think that is a strong argument in favour of a Reserve Bank.

Mr. Lamond: Further down, you give the power to the Reserve Bank to advance against the security of movable goods. Your idea is that we can do this in any part of India?

Dr. Trip: Well I cannot say that it would be possible to do it in any part of India, but I would do it as far as possible, especially in those places where there are important markets.

Mr. Lamond: Would not you see difficulties there? The Reserve Bank would only have a limited number of branches.

Dr. Trip: Therefore the first aim must be to establish warehouse companies so that the Reserve Bank though it would not have the goods under its own lock and key, could yet satisfy itself by keeping the warehouse receipts. Then there would be no difficulties.

Mr. Lamond: The Reserve Bank would pay the money from one of its branches. Well the money may be wanted where the warehouse is.

Dr. Trip: But they can use the offices of the Imperial Bank.

Mr. Lamond: But that is making it more expensive for the borrower.

Dr. Trip: But how do you get the money in this country where you want it? I think that the Reserve Bank would have at its disposal all the means by which money is transferred now, so I cannot see that that would be an objection against my scheme.

Mr. Lamond: If the Reserve Bank employ an agent, they would have to pay that agent. That is increasing the cost to the borrower.

Dr. Trip: If they should have a branch in the place. But, for instance, in Java we give money against goods in godowns that are transferred temporarily to the Reserve Bank. In that place a man of standing is appointed for that purpose as the representative of the Reserve Bank. He keeps the key of the godowns and is responsible that the goods are not removed without payment. So you have not to meet the expenses of a branch to be established in that place, and the costs will be very small. If a man gets his money at a lower rate of interest he will be in a better position, all things considered, than when he has to pay a higher rate.

Mr. Lamond: You would be restricting the operations of the Reserve Bank to the minimum rate of interest or to the maximum.

Dr. Trip: I would leave it absolutely to the Bank, which of course would have to fix and to publish their rates.

Mr. Lamond: Even if the commercial banks were able to finance, they may find it possible to lower the rate.

Dr. Trip: Yes, they would.

Chairman: I do not quite understand that because if I had understood Mr. Lamond correctly, I see the same practical difficulty which he referred to. The Reserve Bank will be operating in 3 centres. Let us speak of persons in the northern part of the Madras Presidency. A man who has agricultural produce has put it into a warehouse and got a warehouse certificate. If I have understood your plan correctly he will then take the receipt to the Reserve Bank, the nearest place perhaps being Calcutta, and there get accommodation. Now, will not that make things difficult for him? Would not the proper procedure for him be to take the warehouse receipt to some local bank, may be a co-operative bank, and get his accommodation from it. That bank, in its turn, may get the bill, supported by the receipt, rediscounted by the Reserve Bank, and so make up the accommodation given to the primary party. I do not understand how the Reserve Bank is going to operate directly. If the Reserve Bank had a network of branches all over the country it might be a feasible proposition. But so long as it has not got a network—undoubtedly there will be an agency of the Imperial Bank—but even so, from a practical point of view the first party will have to take his warehouse receipt to the Imperial Bank functioning as a commercial bank and get accommodation from it. The Imperial Bank will then as a second step have to get the accommodation bill rediscounted by the Reserve Bank.

Dr. Trip: That is the way in which I should like to transact the business.

Chairman: If that is so, it is allright.

Dr. Trip: That is why I put the following—

> To avoid misunderstanding it may be added that the Reserve Bank need not necessarily avail itself of this opportunity to a large extent; the mere fact that the opportunity exists will enable the Bank to exercise a strong influence on the level of the rate of interest.

If you have an important marketing place where a great deal of business is done, then I see no objection to the Reserve Bank establishing a branch there. As I see the development of the Reserve Bank, I think it will gradually have to increase the number of its own branches.

Chairman: Would not that mean interference with commercial business of other banks established there?

Dr. Trip: It need not. If you have funds in the big centres say Calcutta or Bombay, it is possible for the Reserve Bank to take warehouse receipts or goods direct from merchants and give credit against those receipts or goods. I think their influence on the market rate will be very considerable.

Chairman: I quite agree. I have no objection to their being allowed to purchase bills against warehouse receipts in the same way as they have been authorised to purchase other commercial bills. But as matters now stand or will stand after the establishment of the Reserve Bank, the bulk of the business will be through the channel of rediscounting.

Dr. Trip: If it is possible, of course it is the best way. But I only fear that there is not enough scope for the work of the Reserve Bank if you restrict them to rediscounting of bills, and therefore I have to provide for them a way to make their influence felt. But they must proceed gradually.

Chairman: At places like Calcutta or Bombay wherever the Reserve Bank has got its branch undoubtedly it will transact this business directly. But the bulk of the agricultural business will not be done at these principal cities. It will be done in rural and urban areas, and therefore the Reserve Bank can participate in the business only through rediscounting. Take for example the Punjab. It deals largely in wheat. The Reserve Bank has no branches in that province. If the system of warehouse receipts and discounting of bills based on them, can be introduced how can the Reserve Bank deal directly with these bills if people have to bring them to Delhi? Therefore business will have to be done through the intermediary of another bank.

Dr. Trip: It will certainly be the case in the first few years. But if the Reserve bank come to the conviction that there is large business in the Punjab and that their working through the local banks is not satisfactory because, for instance, these banks charged very high interest rates, then I do not see why the Reserve Bank should not establish a branch in the Punjab.

Chairman: In any case it makes your ideas clear. You envisage that when such a position arises, the Reserve Bank should be authorised—it was not given that power in the Bill of 1928—to open branches at any place.

Dr. Trip: I cannot see that it is restricted in the Bill of 1928 with regard to the opening of branches. It has an obligation to open branches in certain places but it is entitled to open branches in other places.

Chairman: It is optional to open branches.

Mr. Jamal Mohamed: I thought the suggestion of foreign experts which allows the Reserve Bank to make advances on warehouse receipts was contemplated as a safeguard in case other banks do not keep the

rates at a reasonable level. I think it is only a safeguard lest the banks should have a complete sway over the money market.

Mr. Khaitan: If the money market in India had been properly developed and if there had been enough bills in existence, then the proper course for the Reserve Bank would be to rediscount bills. But in India the bill market is not properly developed, and if the business of the Reserve Bank is restricted by legislation to rediscounting of bills, the Reserve Bank cannot be of proper assistance to the country and cannot control the banks in an efficient manner. Therefore you think it desirable to give liberty to the Reserve Bank to advance moneys on the security of movable goods, wares and merchandise. The Chairman was pleased to raise the question that there would be practical difficulties because the Reserve Bank would not have enough branches. Now, am I correct in thinking that your view is that even during the period the Reserve Bank has not enough branches, the very fact that it will have branches in Calcutta, Madras, Bombay and Delhi, will enable it to advance money on the security of movable goods, wares and merchandise, and since the rate of interest is controlled by these centres, especially Calcutta and Bombay, it will be better able to control the banks, and serve the country better than it otherwise can.

Dr. Trip: Absolutely so.

Mr. Khaitan: Furthermore, your suggestion would also meet to a certain extent the point raised by Lala Harkishen Lal on the first day of his discussion with you, *viz.*, if only the operations of the Reserve Bank were confined to rediscounting of bills, how could industries get assistance from the Reserve Bank? If according to your suggestion the Reserve Bank is allowed to make loans and advances on the security of movable goods, merchandise, etc., it will be able to help industries.

Dr. Trip: Subject of course to their duty in respect of the maintenance of the local and international position of the rupee.

Mr. Khaitan: There are several industrial concerns in Calcutta and Bombay—cotton and jute mills—which can provide their own working capital. It is only in the busy season that they want some advance, say for 3 or 4 months. Do you think that these concerns need have any hesitation to approach the Reserve Bank direct and get that kind of assistance?

Dr. Trip: It all depends upon whether their goods can be sold.

Mr. Khaitan: It does not make any difference to the Reserve Bank in what form those goods exist so long as money is realised and paid to the Bank.

Dr. Trip: I should have to consider in the first place whether these concerns could get all the accommodation they want on reasonable terms from commercial banks. If that was not possible, I should consider the proposition.

Mr. Khaitan: I will give you an example of what is actually happening in Calcutta. Jute mills sell manufactured goods forward 9 months and 12 months, so that jute mills are sure of getting the sale proceeds of the manufactured goods as the due date arrives. There is hardly any risk of getting into difficulties and the advances made to them becoming frozen.

At the same time, as they buy and stock 9 to 12 months' consumption of jute, they would be quite able to keep with the Reserve Bank a warehouse receipt of six months' stock. Under your scheme they will be able to get advances from the Reserve Bank.

Dr. Trip: I must say that in the first place I was thinking of goods that were practically sold and were on their way to the final market. I should not favour the Reserve Bank entering this line from the beginning. I only think it ought to have the possibility to do so in case it thought it desirable for maintaining its position and carrying out its policy.

Mr. Khaitan: Suppose a jute mill requires 3 lakhs of bales of jute for 9 months' consumption. Jute is a very easily salable commodity. The mill keeps for its ordinary working 1,50,000 bales and pledges with the Reserve Bank the remaining 1,50,000 bales. So that the working of the mill goes on normally and the Reserve Bank has control over 1,50,000 bales. As I have already told you, the jute mill has sold forward, for every month for the next 9 or 12 months, its manuafctured products which it produces from the 1,50,000 bales which it has kept with itself. It manufactures the goods and is sure of getting the sale proceeds. Does not that make the position of the Reserve Bank even more secure than the system you contemplate? Under what you contemplate, A sells goods to B. A draws a 90 days' bill on B, which B accepts, and on the expiry of the 90 days B makes payment to the Bank, and if he fails A makes the payment. There is no security behind that bill, although it is a *bona fide* trade bill. Now you call that perfectly liquid, but in the other case there is the certainty of the jute mill getting money by the delivery of its products. Don't you think that this transaction is as liquid as the other and much more secure?

Dr. Trip: On principle I should be in favour of the Reserve Bank trying to bring the customer in the first instance to commercial banks, but I should not like to exclude the Reserve Bank from direct dealing with the mills in the way you have suggested.

Mr. Khaitan: It can do so in such a case as this because it considers that its money will remain quite liquid and will be fully secured.

Dr. Trip: I have no objection on principle.

Mr. Sarker: Apart from security and liquidity are you not also to consider whether it will compete with other commercial banks.

Dr. Trip: Yes. As I said yesterday, in my opinion there must be the possibility of competition.

Mr. Sarker: If there is only that possibility, the transaction should not be encouraged by the Reserve Bank.

Dr. Trip: If it is not necessary for the policy of the Reserve Bank I would not encourage it to do it. If it is, however, necessary for the Reserve Bank to make its influence felt, I would not hesitate to allow the bank to do so.

Mr. Sarker: If this transaction entails competition with commercial banks then, except for the purpose of open market competition, you will not recommend this sort of accommodation.

Dr. Trip: No, not, for instance, if the Reserve Bank would do it in order to earn larger profits.

13th February 1931.

Mr. Lamond: I should like a short discussion on the suggestions regarding the development of bills. You say:

> "It ought to be emphasized at the outset that genuine trade-bills as would be eligible for purchase or rediscount by the Reserve Bank, can only be created if producers and traders are prepared to sell on credit. The distinction between trade-bills and finance bills is of the greatest importance and the information which we gathered seems to point at great difficulties experienced by purchasers of bills in endeavouring to distinguish between these two classes of paper".

Would you kindly lay down what you consider should be the class of bills acceptable to the Reserve Bank?

Dr. Trip: Generally speaking, bills drawn by the seller of goods on the purchaser would be acceptable, and it would be preferable if these were endorsed by a bank in order to give more security to the Reserve Bank.

Mr. Lamond: You say that "the development of the cash credit system is said to have unfavourably influenced the use of bills". The Imperial Bank cash credit system does not interfere with the development of bills. Our system of financing upcountry and industrial concerns is against stocks which are stationary and which are purchased and held for sale. There are two ways of making advances against these stocks. In the Punjab, after the harvest wheat is collected in the different mandies by traders and kept there to meet the normal requirements over the year. A trader, if he has Rs. 50,000 or a lakh, anticipates that he would probably do a trade which would necessitate the holding up of his stocks, and comes to the bank before the harvest, say, about the end of March or the beginning of April, and asks for facilities to enable him to draw up to a lakh and a half in Bombay. The bank agrees and he signs the cash credit document for a lakh and a half; then he begins to collect the grain from the growers and puts them into godowns. This is now his own property and after the goods are examined by the bank and the standard accepted, he is liable to draw up to 75 per cent. of the market value of the goods. Do you think this cash credit can be replaced by a bill?

Dr. Trip: No.

Mr. Lamond: It seems to me that the cash credit and bills must go side by side.

Dr. Trip: I should like to make it clear that I do not criticise the cash credit system. I think it is an absolutely necessary system for this country and for its expansion. It is just the same system that is followed in the Dutch East Indies where cash credits are given to the holder of the goods. When the goods are sold, there comes a movement and it is then that the bills may come into the market. I do not know why bills do not come in this country at that stage.

Mr. Lamond: They do come.

Dr. Trip: But not in sufficient quantities.

Mr. Lamond: The bills we take for the movement of crops which in such cases are probably moving down to the consuming market. They are sold for payment on receipt of the goods at the station. The currency is short, but the bills are there. The currency is from the release of the goods at the godown to the arrival at the station of the consuming market.

Dr. Trip: The currency is so short that it is practically not a proper instrument for discounting business.

Lala Harkishen Lal: You told me that unless we started selling on credit, the bill would always be a bad bill. The cash credit, according to Mr. Lamond, is no cash credit unless it is repaid by cash when the goods are removed. The goods are removed from the godowns into the mill or from the mills back into other godowns, and until the cash is paid, they are not released even for working. That is why the system is called cash credit, but it comes at a quite different stage. There are two stages previous to that, the stage of bringing them into the factory and taking them from the factory. Both at present are done on cash system. The man delivers goods, the banks pay for it and it is taken into the custody of the mill. When it is removed from the custody of the mill even for the working process, the bank receives cash. But before and after, the bills come in very easily. Suppose the seller of the goods drew a bill on the mill and the mill cashed that bill; they would have freedom of the goods up to a certain extent rather than be under the lock and key of the bank, but if the seller accepted the bill of the buyer and put it into the bank, the whole thing could be turned into three stages. One stage may be called cash credit or bill credit, because the goods may be removed not only on cash payment but it may be removed on the bill. Then the period for which cash credit would be required is very short. If the seller of the goods himself gives credit for three months and the mill gives credit for three months, the bank's credit would only be for three months direct to the mill against warehouse. But against the bills it would be three months on one side and three months on the other.

Dr. Trip: Yes.

Mr. Lamond: Could I give you some idea of the length of time required for financing, say, wheat in the Punjab? When a man comes along in March in order to make arrangements for the next year, we allow him to carry over into his new cash credit 20 per cent., of the credit covered by the preceding crop and he wipes that off in three or four months, which shows that the credit required for that crop is really for 15 months.

Dr. Trip: They are practically two seasons.

Mr. Lamond: The credits overlap a few months. We have to make arrangements to carry on a small percentage of last year's credit for those few months.

Mr. Manu Subedar: You also allowed them to do the same thing in the beginning of the previous year; therefore it would not be 15 months.

Mr. Lamond: From the time the new crop comes until the last of that year's crop goes out, it covers a period of fifteen months.

Lala Harkishen Lal: We must not mix up warehousing for stock purposes and warehousing in the mills. They are two different things altogether. If the cash credit is removed and then renewed, the three months come in only once. After the three months have begun, it would be twelve months up to that time. If the new crop comes say, in, May and the account is really re-started on 1st March, March and April can be taken only once and not twice over. Therefore the run is 12 months. The run is also 12 months when we are counting two crops. So far as the agriculturists are concerned, there are two crops, wheat and cotton; and they do not require 12 or 15 months. The requirements of industries have to be analysed and spread over and the merchants' godowns have to be distinguished from the godowns for the agricultural movement of crops. So far as the mills are concerned, their cash credit is only for four months. The same bank is no doubt advancing money and a man who wants to make arrangements with the Imperial Bank for the next year would say that he would bring in his bills from the 1st May to the end of July. The stocks will be on cash credit and the stuff will begin to move from August and the bills would be for three months. In two cases there would be trade bills and in the third, it will be only the mill's credit.

Dr. Trip: But the mills should be prepared to sell on credit. Generally speaking, they are not prepared to do so.

Mr. Lamond: Because they are not at present prepared to bring in bills signed on credit. If we accepted and enforced that view, then the cash credit will be only for four months. So far as banks are concerned they will get the credit of the mill on the one side and the credit of the merchant on the other.

Dr. Trip: They have no goods in their own power.

Lala Harkishen Lal: They many have them in the power of the buyers and sellers.

Dr. Trip: Of course they must trust the buyers before it could be done.

Mr. Lamond: In some of the districts in the South, we have 5,000 or 6,000 very small godowns and there, the system of demand loans prevails. These demand loans are for generally six months from the time they start to the time they run on. People have to pay it back any time. This system corresponds more or less to what you refer as follows: "The warehouse receipts issued by the company would be negotiable instruments of title which can safely be accepted by banks and bankers as collateral for credits". Only we have no warehouse receipts, but take charge of godowns.

Dr. Trip: Legally speaking, you have not the goods in your possession?

Mr. Lamond: You have the goods in your possession, they must be taken from the godowns. That more or less corresponds to your suggestion.

Dr. Trip: Yes, I think that in this country this system will have to continue for a very long time.

Mr. Lamond: Do you think that can be replaced by bills?

Dr. Trip: No.

Lala Harkishen Lal: If the godown contains good paddy, the bank looks at it as saleable property; if it is bad stuff, it will be badly paid. The warehouse receipt will only come in, if it is up to a certain standard.

Mr. Lamond: It will be up to our standard. In my opinion this system cannot be replaced by bills, because if a man wants to sell at any time and we take for the godowns a three months' promissory note from the man and discount that, the man would want so many godowns released, the bill is lying at Calcutta and he wants to pay his money and take the stuff away.

Dr. Trip: In this country there will always be a large amount of cash credit.

Mr. Lamond: The cash credit system must go side by side with bills.

Dr. Trip: That does not alter my opinion that the bill habit can be promoted.

Mr. Lamond: I am not suggesting that; I only say that both are required.

Dr. Trip: Yes.

Mr. Lamond: Clause 17 (2) (a) of the Reserve Bank Bill refers to "the purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India". It comes to the same thing as your suggestion here about the Reserve bank advancing against the warehouse receipts. It may be payable anywhere in India. Would you say that a scheduled bank should be one of the intermediaries for collection or would you make the Reserve bank collect?

Dr. Trip: I have the impression that it can be done by the intermediary of the Imperial Bank.

Mr. Lamond: There are many places where the Imperial Bank is not functioning.

Dr. Trip: That must be arranged. It seems quite easy, but perhaps it is not so in practice. In any case, the Reserve Bank will be entitled to give credits on the bills as collateral.

Lala Harkishen Lal: There can be another way. The scheduled banks are approved banks; when the bills are rediscounted, arrangements could be made to repurchase these and replace them by new bills.

Mr. Lamond: The scheduled banks might object.

Dr. Trip: This seems not likely if they have discount facilities.

Mr. Lamond: It does not refer to accepted bills.

Dr. Trip: That of course lies within the purview of the Reserve bank.

Mr. Buckley: Most of us, I think, are agreed that the indigenous banker is a necessity for the banking system of India and therefore, we would like, if possible, to link him up with the commercial banking system. Suggestions have been made that he should have direct relations with the Reserve bank. I see difficulties in this. In the first place, the indigenous banker may be in places where the Reserve bank has no branch and where even their agents, the Imperial Bank, have no branches. The second difficulty is the soundness of names. According to the Reserve Bank Bill of 1928, there should be two names; in the case of the indigenous banker re-discounting with the Reserve bank, there would be the name of the maker of the bill and the indigenous banker's endorsement. I

do not know if you would consider that sufficient security for an institution such as the Reserve bank, especially in view of the fact that little is known about the names which appear on the bills other than that of the indigenous banker himself. The third difficulty is how the Reserve bank would know that the bills are actually trade bills and not finance bills. These are difficulties which seem to me to arise, in connection with the indigenous banker being brought into direct relations with the Reserve bank, seeing that the Reserve bank must have two names according to the Act, one of which should be that of a scheduled bank. You can, almost regard this as amounting to the Reserve bank discounting with one name only, whereas if the indigenous banker is linked up with a commercial bank and he rediscounts bills with that bank, the Reserve Bank will have also the name of the commercial bank.

Dr. Trip: The indigenous banker being a banker and a trader under present circumstances, and perhaps having a lot of other activities, I think it is not possible to link him up directly with the Reserve bank. It can only be done after he has restricted his business to pure banking. We consider that by the influence of the Association of indigenous bankers, his standing and his methods of doing business will improve and that the Reserve bank, by its relations with the association of indigenous bankers, will be enabled to judge the position of these bankers. It will take time before they can work directly with the Reserve bank. But apart from this, if a trade bill is drawn, it must be drawn by the seller of the goods on the purchaser and it will then be endorsed by the indigenous banker. There will thus be three names. It depends, of course, on the knowledge of the Reserve Bank and on the confidence that it can place indigenous banker and in the purchaser and seller of the goods, whether they will be prepared to take the bills.

Dr. Hyder: I want to clarify the position. Take the case of an indigenous banker in a small town like Hathras. Suppose he has bought goods, wheat or cotton, from a local agriculturist. I should like to know how he can be linked up. He is the owner of the goods in a small town or rural area; he sells the goods to a man in Calcutta. The bill is drawn on the other man. He is not known in Calcutta. He has a cousin or brother, who is also an indigenous banker, and he asks the man to whom he has sold the bill to go to his cousin or brother and ask him to accept the bill. You get two names and then go to the Reserve bank and get it discounted there. Is that wrong?

Dr. Trip: But he is a trader.

Lala Harkishen Lal: If it is a trade bill, there are four signatures before the bill goes to the Reserve bank, *viz.*, the buyer, the seller, the indigenous banker and his cousin.

Dr. Trip: The first indigenous banker is the owner of the goods; he is the trader and of course that is a different situation.

Dr. Hyder: May I put the position in this way? Take the case of a man who has dealings with somebody in Calcutta. He goes to an indigenous banker here and presents his bill on which he demands some money. He asks his seller (my banker has produced his name on the bill) who has got his cousin or brother at Calcutta. The Reserve bank or any other commercial bank at Calcutta on which the bill is drawn must know that he is a substantial man to give his name. Could it be done in this way?

Dr. Trip: It could be done in that way, but it is a question of what the Reserve bank knows about the indigenous banker. If they organize themselves into an association and publish, or in any case hand over to the Reserve bank, their balance sheet and profit and loss account, there would gradually grow up a basis for the Reserve bank having more knowledge about the circumstances of the indigenous banker. Of course the nearer they are to the offices of the Reserve bank, the better that Bank will be in a position to get information.

Mr. Manu Subedar: The knowledge of the Reserve Bank about the customers of a joint stock bank or of an Exchange bank would also be small.

Dr. Trip: Yes, but if they are customers of that bank, there would be the intermediary of the joint stock bank.

Mr. Manu Subedar: Therefore, the Reserve bank would more or less look up to the signature of the bank rather than expect to have direct knowledge of the parties.

Dr. Trip: I should not like to exclude the possibility of the Reserve bank acting directly with the indigenous banker, especially since we are in favour of improving the position of these bankers. It would be contrary to that desire if we excluded them from the beginning from doing business with the Reserve bank.

Mr. Manu Subedar: If you excluded them on the ground that the Reserve Bank would have no knowledge of the signatures, they would have equally no knowledge of the signatures of the joint stock banks.

Dr. Trip: Quite right.

Mr. Buckley: But there would be a difference between a joint stock bank and an indigenous banker in standing?

Dr. Trip: I quite agree that it must gradually grow but we must give an inducement to the indigenous banker to improve his position and that, in my opinion, can only be done by opening the possibility of his being approved as an indigenous banker by the Reserve bank. I do not say that it must be done on a large scale from the beginning; there must be an inducement. We need him and we cannot miss him.

Mr. Buckley: Therefore you see no objection to the Reserve bank having discretion to rediscount bills of an indigenous banker with merely what are called bazaar signatures and these would be considered two or more good signatures in accordance with the Act.

Dr. Trip: I would leave them the discretion to take trade bills on the basis of their knowledge of the parties to the bill and of the transaction that is behind the bill.

Mr. Rushforth: The feeling yesterday was that one uniform rate for India was desirable and Dr. Hyder raised the point that it was desirable that money should tend to a uniform price, the same as commodities did. Would not there be a tendency, and is not there a tendency at present, for that one uniform rate to be based on the higher price in any particular spot? Therefore the tendency with one rate is to level rates up instead of levelling rates down.

Dr. Trip: No, the lowest rates will prevail in the biggest centres of the country.

Mr. Rushforth: For practical purposes there are only three centres, Calcutta, Madras and Bombay, and your rates are based on the price in the most expensive centre? What we want to aim at is not to eliminate competition in money rates.

Dr. Trip: There will be a general competition apart from the local competition.

Mr. Rushforth: But the idea of the Reserve bank rate is to make the Reserve bank facilities available for the different centres. It seems to me that there is a tendency for it to be based on the high side. Because there happens to be speculation in one particular district—you may get a lot of speculation in Bombay—Bengal in consequence would suffer for it.

Dr. Trip: I cannot see any difficulty. With a Central or Reserve bank as the head of the banking organisation of the whole country, the influence of that bank will make itself felt gradually throughout the country. That is the experience in other countries. If you develop the money market throughout the country, the result must be that the rate in one part of the country, or the rate at the centre of the banking community, will influence the rate in other centres. I remember an instance. In a part of Java, which was rather far away from the centre of the country, the Java bank started a branch and immediately after that, the interest rate in that part of the country—went down. Through the influence of the working of the Central bank, competition was stimulated among the traders and the growers of the produce got better prices.

Mr. Rushforth: The only thing I feel is that if India is such a large country and conditions differ so much at times between Bombay and Calcutta, there is the possibility of penalising one district for the benefit of another.

Mr. Currie: The object of having a free money market throughout India is to mobilise all the money resources of the country, so that if trade was brisk in Calcutta and not so brisk in Bombay, money would naturally flow to Calcutta where the rate would become lower and that would be to the good of the country.

Mr. Rushforth: I wanted it to flow freely.

Dr. Trip: It will tend to a uniform rate. If you have two rates, one in Bombay and one in Calcutta, it can only mean that the money is not flowing freely between Bombay and Calcutta.

Mr. Rushforth: Then let your uniform rate be caused by a free flow of funds and not by imposing a uniform rate from the top.

Mr. Currie: But the Reserve bank will not impose the rate. It will base its rate on the demand for money all over the country.

Dr. Trip: I quite see your point. It will take more time in this country than in other countries, because India is such a large country. But I am convinced that if the Reserve bank had been started 50 years ago, you would have had the influence felt all over the country.

Mr. Lamond: Our bank rate is not a discount rate. It is a rate for demand loans and you will find a very fine difference in the discount rate between Bombay and Calcutta. In this country the rate is not regulated by the bank to any great extent. It is a two months' rate and the bank rate is a seven-days' rate.

Mr. Rushforth: That bears out my point. If you make your Reserve bank rate the same as the Imperial bank rate, your business rates will differ from them in the same way as your discount rates do now.

Dr. Trip: No, there will be a difference in the Reserve bank rate from the present bank rate.

Mr. Lamond: The point is that the Reserve bank's discounting must be done in an effective way.

Dr. Trip: It will take some time before it can be an effective rate.

Lala Harkishen Lal: The vernacular and the Indian press did not use to give currency to these changes in rates of the Imperial Bank; now they are doing it. At one time we asked for higher rates of interest than usual. We argued that as the Imperial Bank rate was 8 per cent., we should be offered 9 or 10 per cent. Some people accepted it and some did not. After six months they began to write saying that the Imperial Bank rate has gone down to 6 per cent. and asking why we were charging 8 per cent. Now, however, within the last three years, people write in their loan applications specifying one or two per cent. over the Imperial Bank rate with a minimum of so and so. Whatever the Imperial Bank rate may be, people have taken to specifying the rate. In the People's Bank we get one-third of our applications on this basis.

Mr. Manu Subedar: On the question of cost of remittances, if the Reserve Bank at Bombay or Calcutta had to make a transfer on behalf of its members, *i.e.*, the indigenous banker or the scheduled bank, from one place to another, would you ask the Reserve bank to charge fee for the transfer of an account from Calcutta to Bombay?

Dr. Trip: I think there ought to be some charge.

Mr. Manu Subedar: It would simply be a question of where their reserves are locked up, and whether a larger portion of their reserves are in Calcutta, Bombay, Lahore, etc. It would not seriously matter if a charge is made, but if the transfers are effected without cost as a matter of national duty, it would lead to the equalisation of rates almost instantaneously.

Dr. Trip: I think, it would have a good influence on improving what we call the *giro* system,

Mr. Manu Subedar: On the question of costs then, would you agree that it is a question that should be considered very carefully?

Dr. Trip: I quite agree that it is a question which deserves to be very carefully gone into.

Mr. Rushforth: You say that the policy of the Reserve Bank should be to create a uniform rate and yet you say you are in favour of charging something for remittance purposes. Will you not thereby be creating unequal rates in the country which you are now trying to abolish?

Dr. Trip: On principle I have no objection to the charges on remittances being abolished, but in the beginning, of course, it will not be possible to dispense with these charges altogether, but if it will be possible at a later stage to dispense with costs I would be agreeable.

Dr. Hyder: I think Mr. Currie will be able to answer my point. Take the case of London and Paris. I do not know whether they have begun to send by aeroplanes. We have an exact parallel in this country. If there is very much of an inequality in rates, it seems to me that it would

be better if we could resort to aeroplanes as a means of transport of the specie.

Mr. Currie: I do not think that it is a feasible proposal. It would be very expensive.

Mr. Manu Subedar: No. On a matter of public policy would you not be in favour of minimising as much as possible the inequality in these rates by other possible means?

Dr. Trip: I quite agree that if uniformity could be brought about it would be to the benefit of the country.

Mr. Rushforth: In their evidence before the Hilton Young Commission the Bengal Chamber of Commerce, after consultation with eminent bankers, recommended that in the new constitution of the Imperial Bank—which they assumed would become the Reserve Bank—remittances between important centres should be made free of charge.

Dr. Trip: I can understand the point but you can not compel banks to do so.

Mr. Rushforth: Your memorandum and the suggestions that you make are based primarily on the creation of a Reserve Bank. It will take some-time for a Reserve Bank to come into being, and I should like to know whether it should not be possible to introduce some improvement in the present state of affairs. To begin with you have spoken of the duality of control of currency and credit. I should like to know how the control at the present moment affects banking conditions detrimentally. It seems to me that the difficulties are caused primarily by Government's manipulation of their own balances in the Imperial Bank. They can put in or withdraw large amounts as and when they please and thus the cash position of the Imperial Bank is affected.

Dr. Trip: But can you tell on what considerations Government act in that manner. Have not the Government to make large payments in the country.

Mr. Rushforth: Such dual control will remian even after the Reserve Bank is started.

Dr. Trip: But Government's action will then be limited to what is necessary for their ways and means operations.

Mr. Rushforth: Government balances in India, compared with other private deposits, are considerably larger than in other countries of the world. You know Government balances with the Imperial Bank represent a very large proportion of the funds available with that Bank.

Dr. Trip: I think the Government balances with the Imperial Bank during the busy season range between Rs. 7 and Rs. 8 crores.

Mr. Rushforth: So far as these extraordinary operations on Government balances are detrimental to the banking interests of the country, would it not be possible to lay down, as a general principle, that Government should not operate on their (Imperial Bank) balances in an extraordinary manner?

Dr. Trip: I think as the Government have the obligation to control the exchange value of the rupee, they will have to operate on their balances with the Imperial Bank.

Mr. Rushforth: But now you have an anomalous position when the Government contract and the Imperial Bank expand.

Dr. Trip: That is due to the defect in the system. How could you, apart from the constitution of the Reserve Bank, improve the present situation otherwise than by imposing upon the Imperial Bank the duty of keeping the international value of the rupee in tact.

Mr. Rushforth: Let Government control begin outside the realm of the Imperial Bank. Whatever the Central Bank is, Government will always be interested in the maintenance of the international value of the rupee, and if they consider that the Reserve Bank is not doing exactly as they want, nothing can prevent them from doing what they do now.

Dr. Trip: That is not the case in other countries where Reserve Banks have been established. If the Reserve Bank does not act properly, then Government will have to resort to other means in order to serve the general interests of the country, but they ought not to interfere with the policy of the Reserve Bank as long as the Bank acts in conformity with its obligations under its charter.

Mr. Rushforth: My view is, viewing it from the banking interests of the country, that Government should not interfere with their normal cash balances in the Imperial Bank. I want the Imperial Bank to say whether it has got too much balance or not.

Mr. Currie: If they have got control over the currency, then they cannot do that.

Mr. Rushforth: But the Bank of England has not got control over the currency.

Dr. Trip: In my opinion the Bank of England has that control. The public is even not allowed to take gold to the mint. The Bank of England sells its Treasury Bills in the market when it finds that the currency should be restricted.

Mr. Rushforth: But it does not affect the cash balance of the Bank of England?

Mr. Currie: It does not affect the cash balance of the Bank of England but the currency of the public is affected.

Mr. Rushforth: Why should the Government come to the Imperial Bank and take away its balance? The Government of England does not do that.

Dr. Trip: In other countries, the Government work their balances only for their payments and in so far as these balances are insufficient they have to raise money in order to meet their obligations. In this country the Government have also the duty to control the currency and you can improve this position only by the creation of the Reserve Bank which will take over this duty.

Mr. Rushforth: But in the meantime you do not think that anything could be done to improve the existing conditions?

Dr. Trip: I do not think anything could be done in the meantime. The only thing, that could perhaps be done is that Government should not make it a standing condition, that the bank rate should be raised to 6 or 7 per cent. before emergency currency is issued.

Mr. Rushforth: In past years the price of currency has had a detrimental effect on the price of money.

Dr. Trip: It would not be possible to create a sound position before the Reserve Bank is established.

Mr. Rushforth: You will have one authority with regard to the expansion of the currency, but I do not see why there should be two authorities in charge of contraction. We have agreed that the question of the expansion of the currency should be placed in the hands of the Imperial Bank but why should the Imperial Bank not be given the sole power of contracting the currency?

Dr. Trip: I do not say that the Imperial Bank should be given the power to expand the currency on their own decision. I want to leave the question as to whether currency could not be expanded at a lower rate to be decided by co-operation between the Imperial Bank and the Government. I do not want the business people to pay high rates.

Mr. Ramdas Pantulu: My information is that high rates like 6 and 7 per cent. are declared when money is rather stringent in the market and I have also heard that Government sometimes force the Imperial Bank to increase the rate even when there is no stringency.

Mr. Buckley: That is due to international conditions.

Mr. Rushforth: Surely, international conditions should similarly prevent the Imperial Bank from expanding the currency? Why not let us put the whole of the expansion and contraction in the hands of one authority if it be to the advantage of the country and if dual control is detrimental?

Dr. Trip: That can be done only after the creation of the Reserve Bank and not under the present conditions.

Mr. Rushforth: Well, that brings us next to the rather important point. Why should not the Imperial Bank be then given charge of the currency department? We don't want dual control, we want single control. Never mind if the Reserve Bank came on in due course. Why at the present moment should not the Imperial Bank have control of both currency and credit?

Dr. Trip: How could it? Would you transfer the currency department to the Imperial Bank?

Mr. Rushforth: You would have the Managing Governor . . . .

Dr. Trip: Then the Imperial Bank would have to keep control of the currency.

Mr. Rushforth: In its issue department. It would have an issue department.

Dr. Trip: And they would have the gold and gold securities against it, so that they would practically be the Reserve Bank.

Mr. Rushforth: What is the objection?

Dr. Trip: My objection is that the task of the Reserve Bank is different from the present task of the Imperial Bank.

Mr. Rushforth: How does the Reserve Bank, that you have outlined here as it will be, apart from its currency control differ from the Imperial Bank as it is now? You are going to build up a Reserve Bank on these lines.

You are giving it powers of creating agencies up-country and so on. How is that bank going to differ from the existing Imperial Bank apart from the control of the currency?

Dr. Trip: My Reserve Bank as I see it would have, as its first principle, to remain a liquid institution, and would not have as its first task to expand as much as possible its inland credit giving which is now the task of the Imperial Bank. The principles on which a Reserve Bank ought to be worked are quite different from the principles on which a commercial bank ought to act. What I proposed here was only to create the possibilities for the Reserve Bank to make its influence felt on the situation in the country. As I have stated already, I do not expect that the Reserve Bank would have to avail itself to a large extent of these possibilities. I only want to give them the possibilities in order to enable them to fulfil their task in the interest of the country.

Mr. Rushforth: In other words, the Reserve Bank would have rather more of central banking functions and rather less commercial business than the Imperial Bank has.

Mr. Manu Subedar: So that when there is a banking crisis the currency reserve would be available and when there is a currency crisis the banking reserve would be available. It would be the first duty of the Reserve Bank to keep the cash position very strong in the slack season, in order to be in a position to help the country. It is therefore a fundamental duty and we are going away from the existing system not merely to some extent but to a very large extent.

Mr. Rushforth: Now as regards the liquidity of the Reserve Bank, let us consider the practicability of creating this Reserve Bank. It is to have a capital of 5 crores; it is to take away from the other banks a percentage deposit which I estimate roughly at 12 crores, and it is to take away Government balances, or most of them which are 8 crores. That is, it is to take out of the Imperial Bank something like 25 crores of rupees in cash. Such portion of the capital as is invested by the money market will come out of the Imperial Bank. It will be a credit from the other banks. Let us be optimistic and call it 20 crores instead of 25 crores, leaving the question of capital out. A very large amount of cash has to be found somewhere and if we are going to take it out of the Imperial Bank, well there is nothing left.

Mr. Currie: 8 crores represent Government balances. At the moment, are not those 8 crores Government balances more or less covered by the money Government have borrowed on the other side?

Mr. Buckley: No, it has been paid off. Take their balance at normally 3 crores.

Dr. Trip: It is not a loss. That money remains in the country.

Mr. Rushforth: I am speaking of the practicability of transferring it from the Imperial Bank to the Reserve Bank.

Dr. Trip: In the first place you can do it in instalments. In the second place the Imperial Bank and the Joint Stock Banks have their own cash balances now. I have some figures here—the percentage of cash to liabilities on deposits for the Indian Joint Stock Banks, apart from the Imperial Bank, was 20 per cent. of their liabilities for class A in 1922, and 15 per cent. in 1926. In class B it was 17 per cent. in 1922 and 24

per cent. in 1926, so that if those figures are true they keep much more cash than would have to be tranferred to the Reserve Bank.

Mr. Buckley: But not to-day.

Dr. Trip: That may be changed.

Mr. Rushforth: But at any rate the actual cash on which this new system can be built up is in the Imperial Bank. There is none anywhere else. The cash foundation of your banking system at the present moment is the cash in the Imperial Bank and you are proposing to start another institution which will absorb the whole of that cash.

Dr. Trip: That need not be done all at once. I would not say that I am so greatly in favour of compelling other banks to keep a certain amount of cash with the Reserve Bank. We have not that system in our country. But you could lay down a certain time in the Act itself, let us say of 5 years.

Mr. Rushforth: That then involves a very considerable liquidation of resources.

Dr. Trip: I must say that the main point in this respect is that every country ought to have a certain level of cash reserves on which it is worked. I think in this country the cash reserves generally are too small for the country. If the establishment of a Reserve Bank could lead to a greater cash reserve for the country it would be of great importance to the whole country.

Mr. Rushforth: Is it not more correct to look at it from the other way? You cannot increase your cash reserve but what you can do is to reduce your super-structure of credit. You cannot make money.

Dr. Trip: You can make money if you make your position more liquid.

Mr. Rushforth: That does not increase your cash position.

Dr. Trip: Why not?

Mr. Rushforth: So then your process means a general restriction of credit for the next 5 or 10 years which is the very thing we are trying to avoid.

Dr. Trip: But I think you must distinguish between the position of commercial banks and the Reserve Bank. If the Reserve Bank starts working, the cash position of the country as a whole will be improved.

Mr. Rushforth: It will be unchanged to begin with.

Mr. Buckley: By restriction of credit?

Dr. Trip: Not by restriction of credit. What is the proper way of bringing currency into the country? That is always done by the Reserve Bank. If they want to expand their currency they have to give more credit.

Mr. Currie: If a Reserve Bank increases the currency by buying bills, of course, the banks have that much more cash.

Mr. Rushforth: It is going to buy its bills out of currency. That is inflation of the worst type.

Mr. Currie: It works out under its normal rules. The banks want more money to give credit. They sell to the Reserve Bank. The Reserve Bank may sell so much currency up to the gold it holds. It is all laid down in the Bill for the Reserve Bank, and as bills are taken to the Reserve Bank its currency is increased.

Dr. Trip: That depends on trade. The trade has to increase first.

Mr. Currie: It is only a question of producing bills.

Dr. Trip: But the Reserve Bank can stimulate the demand for credit by lowering their bank rate. I cannot see how you can bring currency into the the country without the Reserve Bank either buying gold or bills or giving credit.

Mr. Currie: The basis of the currency is gold?

Dr. Trip: Yes, certainly.

Mr. Currie: The means of expanding it is to issue currency against bills.

Mr. Rushforth: If the business is not there, I cannot see it. Otherwise the expansion may involve inflation of currency.

Dr. Trip: If the business is not there, why should the Reserve Bank expand its currency?

Mr. Rushforth: Where is the Imperial Bank going to get the cash from?

Dr. Trip: In the first place, I take it that the Imperial Bank has cash reserves.

Mr. Rushforth: The Imperial Bank has cash reserves that are shown in the weekly statements which average anything up to 20 crores taken over the year.

Dr. Trip: Well, take the case that the Imperial Bank has no cash reserves. They would have to restrict either the money they invested in the Government securities or on advances, in order to make cash. They can only make cash by restricting their investments or their credits.

Mr. Rushforth: That would not increase the amount of their cash. It increases their cash percentage.

Dr. Trip: Why not? If they have, let us say, 27 crores of Government securities and sell those Government securities, their cash position will be. . . . . .

Mr. Rushforth: They don't get cash.

Mr. Lamond: Government will have to pay currency into the account.

Mr. Rushforth: Suppose they sell investments in the market, they don't get cash. It means their investments go down and other deposits go down. The cash is unchanged. The percentage is improved.

Mr. Currie: Do other deposits go down?

Mr. Rushforth: Yes, they do. Look at the liabilities and assets of a bank. It sells investments and investments go down. What goes down on the other side? Other deposits go down. But it does not affect the cash.

Dr. Trip: I cannot say whether it will be in cash or deposits.

Mr. Rushforth: It might ultimately be in cash. For instance suppose the Imperial Bank say to Government we are not going to renew 5 crores treasury bills. Government have not these 5 crores to give to the Imperial Bank, but they might then create *ad hoc* treasury bills again and pay in cash.

Mr. Currie: You are taking this business away from the Imperial Bank and giving it to the Reserve Bank?

Mr. Rushforth: The Imperial Bank has to raise more money for the Reserve Bank.

Dr. Trip: There is the possibility too, of course, of spreading it over a longer time. The Imperial Bank could during the first time borrow from the Reserve Bank against a part of their Government securities and create a part of their balance with the Reserve Bank in that way.

Mr. Lamond: What would happen if we allowed our treasury bills to run out and reduce our deposits and leave our cash in the Reserve Bank.?

Dr. Trip: The amount you would have to deposit with the Reserve Bank would decrease. On the other hand, you could make arrangements with the Reserve Bank so that the Reserve Bank would lend money against part of the Government securities owned by the Imperial Bank and then the Imperial Bank would be credited in the books of the Reserve Bank for that amount.

Mr. Manu Subedar: They would take over public liabilities as well as public bills?

Dr. Trip: I won't say that the Reserve Bank should lend money against all public investments or do it for a long time. I only mention the means for the initial stage.

Mr. Manu Subedar: And all treasury bills?

Dr. Trip: That is all a question of practice, which must be left to the Reserve Bank.

Mr. Buckley: All the banks who have very large investments in Government securities at the present time would have to allow these treasury bills to be paid off. The Government might not be able to find the money; and would have to raise it by *ad hocs*.

Mr. Lamond: The currency position would be unchanged.

Dr. Trip: But the position of the Reserve Bank. The Reserve Bank would have to decide whether they would take over all those treasury bills. They ought to educate, if I may use the term, Government to keep a lower debt in the market. I think the floating debt of the Government is rather high in the country.

Mr. Rushforth: You would anticipate no difficulty in dividing up the available cash resources between the new Reserve Bank and the other banks.

Dr. Trip: No, if there is only a period of some years to perform it. If you put in the Act that these reserves ought to be kept with the Reserve Bank within a period of 5 years then I cannot think that there will be any trouble.

Mr. Rushforth: But during that period it will be working for gradual liquidation?

Dr. Trip: But I think the Reserve Bank can help in that respect, and the resources of the country as a whole will not be diminished. On the contrary I think they will be increased by the influence of the Reserve Bank.

Mr. Manu Subedar: The Imperial Bank would also act as agents to the Reserve Bank and it is not unusual for the principal to leave some money . . . . . .

Mr. Rushforth: I am allowing for that. That would be a comparatively small amount.

Chairman: Because they will act as Agents, not in the principal stations like Calcutta and Bombay.

Mr. Lamond: There is nothing in the Act to show that the Reserve Bank will keep money with the Imperial Bank. They merely receive payments once a month.

Mr. Manu Subedar: There will be a certain amount always with the Imperial Bank. Dr. Trip, you would not say that all the cash reserves of the country are now with the Imperial Bank, because many Joint Stock Banks carry a large amount of cash. They would reduce their cash holdings when they come in direct contract with the Reserve Bank?

Dr. Trip: I think so.

Mr. Manu Subedar: Those joint stock banks, which are not certain of what would happen to them in the event of a rush on them, keep a considerable amount of cash of their own; they do not rely much on the Imperial Bank coming to their assistance.

Mr. Lamond: I think they keep it mostly in Government paper.

Mr. Manu Subedar: Also in cash.

Dr. Trip: In a country like this, joint stock banks ought to have considerable resources in cash.

Mr. Rushforth: It is till money in reserves.

Dr. Trip: Till money has to be kept on a larger scale in India than elsewhere.

Mr. Manu Subedar: The creation, Dr. Trip, under your Reserve Bank of bank acceptances which do not exist in the country now, would give a very large chunk of credit which does not exist now. Therefore it would add to the credit resources of the country. Even if some advances by the Imperial Bank have to be recalled temporarily, the credit resources as a whole would increase enormously.

Dr. Trip: Yes. Therefore, I say there can be no difficulty. There may be some difficulty in the beginning but that could be removed quite easily by the co-operation of the Reserve Bank with the joint stock banks and the Imperial Bank.

Chairman: Perhaps something similar took place in America when they started the Reserve Banks.

Dr. Trip: Oh, yes. The member banks in that country have also to keep their reserves to a certain extent with the Reserve Bank.

Chairman: And after the introduction of the system of rediscounting bills, if it is in any degree successful, it will alter the cash resources by increasing the velocity of circulation.

Dr. Trip: It must have influence.

Chairman: That came out in the course of our discussions with the representatives of the Exchange Banks and the Managing Governor of the Imperial Bank. But there are other considerations which will affect the position the other way.

Dr. Trip: It may be.

Chairman: One point about the Imperial Bank expanding the currency. The Government of India examine the position on each occasion before they give loan against the bills.

Dr. Trip: I think so.

Mr. Lamond: I think we have gone so far as to fix the rate. It is a standing rule that they do not give the credit unless the Imperial Bank rate is at a high level.

Chairman: Well, it is not for me to disclose how the Finance Department manages its business.

Mr. Rushforth: That settles my difficulty that the Government still retains control as regards the expansion of the currency.

Mr. Manu Subedar: Can we take it that the creation of a larger volume of credit will tend generally to reduce the rates charged by the action of the ordinary law of demand and supply?

Dr. Trip: Certainly. But of course the position of the Reserve Bank would depend on the balance of payments of the country.

Mr. Manu Subedar: It depends on the prosperity of the country. All these factors being the same under existing arrangements, and assuming they remain the same under new arrangements, then the larger volume of credit which is being created would tend to bring the rates down.

Dr. Trip: Oh yes. Take for instance the present position. Government can only give 100 per cent. of the value of gold that comes in. If the Reserve Bank is working they can expand their notes by 2½ times the value of gold which they receive.

Mr. Rushforth: One of the main objections used in the Hilton-Young Commission's report regarding the Imperial Bank taking on the duties of the Reserve Bank was its commercial activities. It just struck me that at the present moment the commercial activities of the Bank are at a lower ebb than they have ever been before, which it seems to me makes possible reconsideration of the question from that point of view.

Dr. Trip: I do not think so. You must not argue on the basis of the present situation. The present situation is abnormal in the whole world. If you look at the present operations of Reserve Banks, you will find that there is a very small demand for credit-accommodation, everywhere.

Mr. Rushforth: Three years ago, when it was proposed to turn the Imperial Bank into a Reserve Bank, it was objected to because of its commercial activities. At the present moment its commercial activities are, as I said, at a very low ebb. Here you have got a structure, everything ready for the creation of a Reserve Bank. Why postpone it?

Dr. Trip: All of us, I think, hope that the commercial activities of the country will improve again and then of course the same situation will arise which was before the Hilton-Young Commission. I cannot see how you can base the regulation of the banking system in this country on the present circumstances which are abnormal. The activities are now restricted, but they will expand if circumstances improve.

Mr. Rushforth: Why not expand it at the top instead of knocking off the bottom. At present it is central at the top and commercial at the bottom. Why not develop the central banking function and leave the commercial side as it is?

Dr. Trip: How would you fix the commercial activities of the Imperial Bank at their present level?

Mr. Rushforth: On the lines you recommend here.

Dr. Trip: I think it would be detrimental to the development of banking facilities in the country. As Dr. Jeidels said, industrial finance and the development of banking facilities in this country make it absolutely necessary to keep the Imperial Bank a commercial bank.

Mr. Manu Subedar: Let us take only one case, if the Imperial Bank were turned into a Reserve Bank, they will give no interest on deposits with branches. You would render forthwith these branches unremunerative. Therefore, the Imperial Bank still remaining a commercial bank would probably close those branches. That would be all against the trend of the policy of expanding banking which this country requires.

Dr. Trip: The Imperial Bank would get other sources of profits. Acting as a Reserve Bank will bring in profits, and the Imperial Bank may be induced to keep the branches if there is no profit or even a loss.

Mr. Manu Subedar: Have you taken the lending side? On the lending side when they get cheap money as a Reserve Bank, they would prove fatal to the Indian joint stock banks.

Dr. Trip: I think it would be absolutely wrong to make the Imperial Bank the Reserve Bank and to keep it at the same time as a commercial bank. One of the results would be that the position of the joint stock banks would be made impossible, and all things taken together, there would be a restriction of banking facilities throughout the country.

Mr. Ramdas Pantulu: The Imperial Bank is now considered by joint stock banks as a powerful bank, and when the Reserve Bank is established, the Imperial Bank will be free to do more commercial banking and will be a very powerful rival to commercial banks. Have you considered the position from the point of view of joint stock banks? Will they not welcome the Imperial Bank itself being converted into a Reserve Bank so that the joint stock banks may find it easy to expand and establish branches.

Dr. Trip: Indian joint stock banks would of course prefer that the Imperial Bank should be converted into a Reserve Bank and that it should stop its work as a commercial bank. But whether it would be preferable from the point of view of the country as a whole is another question.

Mr. Ramdas Pantulu: If the joint stock banks are not able to expand because of the Imperial Bank to the extent they should and to afford in a growing measure the banking facilities required by the country, it will be disadvantageous to the country to keep the Imperial Bank as a powerful commercial bank.

Mr. Jamal Mohamed: Do you think that at present it is impossible to convert the Imperial Bank into a Reserve Bank?

Dr. Trip: It is, of course, possible, but it will be detrimental to the country.

Mr. Jamal Mohamed: Commercial banks object to the rivalry of the Imperial Bank because the Imperial Bank is using Government balances freely, but when you constitute the Reserve Bank Government balances will go to the Reserve Bank.

Dr. Trip: Yes.

Mr. Rushforth: You did not think there would be any difficulty for the Reserve Bank to pay its way because interest on securities would probably be adequate to make up any defect. Mr. Lamond mentioned that

interest on securities is considered as public revenue. To that extent it would be a loss to the country. You are definitely of opinion that the country should be prepared to pay for it if necessary. But I think you expressed the opinion, in reply to Mr. Sarker, enquiring 'why should not the legislature be prepared to spend that money on industrial banking in various ways', that as a matter of policy you would not be in favour of it. But in the case of the Reserve Bank you would be in favour of Government subsidies if necessary.

Dr. Trip: In my opinion large schemes of industrial banks would result in big losses to be sustained by tax-payers. In the case of the Reserve Bank, in the first place, there would be some sacrifice only at the beginning, and this sacrifice would be limited only to the cost of the Reserve Bank. In the second place, the Reserve Bank will bring a surplus to the tax-payer later, whilst the country as a whole would doubtless derive profits from the work of the Reserve Bank from the outset.

Mr. Manu Subedar: The creation of credit in the proportion of 1: 2½, which does not exist at present, would bring the Reserve Bank some additional earnings. These earnings may be more than the interest on the Reserve securities, and if it is a private corporation Government's share of the profits may compensate them for the loss which may come in the first year.

Dr. Trip: I think this whole question is of no real importance.

Mr. Manu Subedar: On the other hand if the institution was entirely a Government institution, taking a period of ten years, the balance would not be a loss to the tax-payer, but a gain.

Dr. Trip: I see no difference whether it is a Government or a private institution. If you spread it over a longer period, I am absolutely convinced that it will be an extra profit for the tax-payer.

Chairman: The fact is fully dealt with in two paragraphs in the Royal Commission's report.

Mr. Jamal Mohamed: Even if there be some loss to the tax-payer by the establishment of the Reserve Bank, you think it will be more than counterbalanced because of the facilities the traders and agriculturists will have for accommodation.

Dr. Trip: Yes.

Mr. Jamal Mohamed: Even that little cost you may have to incur is a thing worth it.

Dr. Trip: Yes.

Mr. Jamal Mohamed: Is there any other country in the world where they have a thing like this?

Dr. Trip: I must say I do not know any other country where you have the present situation in this country except perhaps the Federated Malay States.

Mr. Jamal Mohamed: No fairly developed countries?

Dr. Trip: No.

Mr. Jamal Mohamed: You speak of a range of 3 per cent. as quite ordinary in India. What is it generally in your country or in western countries?

Dr. Trip: In my country there are changes only if the Reserve Bank thinks it necessary to take action with regard to the international position. Take for instance the well-known stock speculation in the U. S. A. Practically speaking, there is no annual range of interest in my country between several seasons.

Mr. Jamal Mohamed: Don't you think the borrowings of Government at high rates of interest have something to do with this.

Dr. Trip: Certainly.

Mr. Jamal Mohamed: The high rates which Government are paying for their borrowings are detrimental to the trade and industry of the country.

Dr. Trip: If a certain expenditure in the general interest of the country is considered by the Legislative Power the Government must find the money, although its borrowing may affect trade and industry.

Mr. Jamal Mohamed: What I meant was this. If Government offers a very high rate of interest, money will flow into their loans; if they do not, it will go to meet the needs of the country.

Dr. Trip: It affects the position.

Mr. Jamal Mohamed: You are for a Reserve Bank, but it need not necessarily be exactly as is contemplated in the Bill of 1928?

Dr. Trip: No. There may be changes and modifications.

Mr. Jamal Mohamed: Can the Reserve Bank do that without really going into the foreign exchange business?

Dr. Trip: They have to enter the foreign exchange business.

Mr. Jamal Mohamed: You think it must be part of their business to do foreign exchange business?

Dr. Trip: Yes. They have to do it with regard to the international position of the rupee.

Mr. Jamal Mohamed: You evidently mean the gold standard value because really we have no gold currency in our country. What we are supposed to have is Gold Standard Value. It is a fictitious one from my point of view.

Dr. Trip: You mean the gold standard value.

Mr. Jamal Mohamed: The international value of the rupee. It will not lead to gold currency.

Dr. Trip: No.

Mr. Currie: It may eventually do so.

Mr. Jamal Mohamed: Our resources of gold have dwindled a great deal. Whatever may be the case in the western world, so far as India is concerned, from my point of view and from that of many others, we are not so much concerned about the gold standard value of the rupee as we are to keep up the productivity of the country and export trade and get good prices for our commodities. Your suggestion will not help us to get a gold currency, but you say it will maintain the gold standard value of the rupee.

Dr. Trip: Yes.

Mr. Jamal Mohamed: You speak of scheduled banks. Who is to make the list?

Dr. Trip. It is in the Bill.

Chairman: All this is a summary of the provisions of the law.

Mr. Jamal Mohamed: Page 5, Lines underlined. It means not necessarily through the scheduled banks, but directly. There will be no harm in that.

Dr. Trip: No.

Mr. Jamal Mohamed: You want power given to the Reserve Bank if other banks are not behaving well . . . . .

Dr. Trip: In order to give the Reserve Bank the influence it ought to have.

Mr. Jamal Mohamed: To control joint stock banks and to keep up the rate at a certain level.

Dr. Trip: To control the rate of interest, as a sort of safeguard.

Mr. Manu Subedar: Once a bank is scheduled, it would still be open to the Reserve Bank to say, 'we won't deal with you.'

Dr. Trip: It will be so under the present Bill.

Mr. Lamond: As regards deposits it is obligatory, but not with regard to bank bills.

Mr. Jamal Mahomed: You lay great emphasis on the system of warehouses. How long have you had warehouses in Java?

Dr. Trip: I cannot say. The warehouse system has gradually grown. Apart from warehouse-companies, traders and commercial banks in Java have warehouses, and products stored in them are made collateral for loans if money is needed from the Reserve Bank.

Mr. Jamal Mohamed: If we have similar warehouses built up and spread over the country, some of our troubles will disappear?

Dr. Trip: I am quite convinced of it. If a system could be invented to make these warehouses available—it cannot be done at once—and if their receipts be made collateral for loans from banks and from the Reserve Bank, it would be of great importance to the country, and it would improve the situation of the money market to a large extent.

Mr. Jamal Mohamed: It will be very helpful to rural population for marketing purposes and for getting better prices. Sometimes they have to hold on stocks. They can put them in a warehouse and raise money on the warehouse receipt.

Dr. Trip: It is a problem in itself, whether it is possible and desirable, from the point of view of the situation of the ryot, that he should keep his products for a long time. In any case it would be possible to keep the products for some time before they are sold.

Mr. Jamal Mohamed: If the system is developed, it might help.

Dr. Trip: Yes.

Mr. Jamal Mohamed: The Java Bank is not a bankers' bank in the strict sense of the word. Why is it so?

Dr. Trip: It does not only give credits through the medium of private banks. Perhaps only the Bank of England may be called a bankers' bank, but there are many transactions even of the Bank of England which are

not done through the medium of private banks. In Java the Java Bank does large transactions direct with traders.

Mr. Jamal Mohamed: On occasions the Central Bank can enter the market and deal direct with traders.

Dr. Trip: Yes.

Mr. Jamal Mohamed: You speak of Muddati hundis. You think that because banks give more and more cash credits, Muddati hundis have been affected.

Dr. Trip: I do not express my own opinion. I was told in Bombay that the system of cash credits affects the use of hundis. But I do not think that has much to do with hundis.

Mr. Jamal Mohamed: You have complained of the lack of a bill market in India, and if there be less of these hundis, there will be less of that market.

Dr. Trip: I mentioned measures which could be taken in order to develop the bill-habit but, in my opinion, the cash credit system is a most useful system for the country as a whole.

Mr. Jamal Mohamed: You recommend that the policy of joint stock banks should be so regulated as to encourage muddati hundis, not so as to suppress them.

Dr. Trip: Yes, but we must not forget that it does not depend on banks alone.

Mr. Jamal Mohamed: In the last paragraph of your note where you refer to Rupee bills, are you thinking of bills coming in rupee instead of in sterling as it is now?

Dr. Trip: Yes, the point raised was "whether it would not be possible to create rupee bill", especially with regard to imports.

Mr. Jamal Mohamed: But you say that at present it may not be easy.

Dr. Trip: Even for the country, as a whole, I do not think it would be an advantage.

Mr. *Jamal Mohamed*: Other countries have their imports in their own currencies.

Dr. Trip: That may be so.

Mr. Jamal Mohamed: That is the currency of that particular country?

Dr. Trip: There are many imports in other countries that are in sterling too.

Mr. Jamal Mohamed: I know that in America they have their imports in sterling and in Japan in rupees, but that is only a small fraction of the import trade. Generally the imports are in the currencies of the particular country concerned.

Dr. Trip: I do not think that it is a small fraction in many countries.

Mr. Manu Subedar: Would you suggest that in France or Holland the bulk of the import bills are drawn in currencies other than their own?

Dr. Trip: No, because in France and Holland the credit is very cheap

Mr. Manu Subedar: Do you suggest that it is done in Italy?

Dr. Trip: I cannot say.

Mr. Jamal Mohamed: My point is that no doubt in other countries they have their import bills drawn in currencies other than their own, but it is only a small fraction of the trade, *e.g.*, 5, 10 or 15 per cent. The main bulk of the trade will be in currencies of their own country.

Dr. Trip: I think generally it is the case.

Mr. Jamal Mohamed: When that is so, why should you think it difficult to bring it about here?

Dr. Trip: I do not say that it would be difficult to bring it about in the future, but, at present, conditions are such that it would be more expensive to finance the bills than by the way it is done now. The buyer and the seller look out for the cheapest way of doing business.

Mr. Jamal Mohamed: The buyer is an Indian. The export trade is practically in outside currencies. When we are the buyers there is no trouble about it except the fact that it has established itself and it has become a fashion to use sterling bills.

Dr. Trip: It is not a fashion. It is a real basis that the parties to the transaction try to get it in the cheapest way.

Mr. Jamal Mohamed: Do you not think that the fact that there is practically no Indian bank doing foreign exchange business and that almost all the banks in India doing foreign exchange business are foreign, has something to do with it?

Dr. Trip: I do not think so. If I am not mistaken, the situation in America, before there was any bill market there, was practically the same.

Mr. Sarker: You say that "under normal circumstances the currency of that country will be preferred where the lowest rate of interest prevails." Referring to the hundi bill, how would the rupee bill go to the country where the lowest rate of interest prevails, because they will be import bills in India? The difficulty is the non-development of the discount market but the hundis will go to other countries where such a rate of interest prevails?

Dr. Trip: They can be discounted in the country of the sellers.

Mr. Jamal Mohamed: The import bills will come here for acceptance.

Dr. Trip: Take for instance the export of sugar from Java. The bills with confirmed credits come in the market and are sold freely in the Java market; all the banks take those bills. So rupee bills could be taken, for instance, in England.

Mr. Manu Subedar: Only in the case of confirmed credit.

Dr. Trip: Or when the parties are well known to the banks.

Mr. Manu Subedar: Do you know that in India, facilities are not available for everybody for depositing adequate resources with the bank? It is the foreign exporter from Europe who gains his money by rediscounting and so on; the position of the importer is worse, because unless he finds money a few months in advance and puts it into his bank here, he does not get credit.

Dr. Trip: That means clean credit?

Mr. Manu Subedar: It may be clean credit in some cases, but in the majority of cases my information is that confirmed credit means that the importer has to have deposits and balances with the bank here months in advance.

Dr. Trip: The question, whether the importer can get the credit he wants only with the security behind it or as a clean credit, is one of the factors that decide what way of financing the transaction will be the cheapest one.

Mr. Manu Subedar: From the point of view of the importer, on the other hand, if it was a rupee bill and it was not discounted in what you call a cheap money market, as soon as he accepts it here, he has the benefit of getting it discounted with his banker, because it is a liquidating document which will be all right, and after whatever period it has to run, say, one or two months, the position of the importer would be better, as he would not have to find money months ahead for a transaction, as he has to do under the confirmed credit arrangement.

Dr. Trip: But I cannot see that there can be any objection to banks to discount bills if the parties are known to them and are of good financial standing.

Chairman: If in the second case the rate of interest affects the transaction and if the rate of interest in India is higher than the rate of interest when a sterling bill will be discounted, the customer may not want to have the rupee bill. But if the customer was willing to have the rupee bill irrespective of the expense to him, I take it you would have no objection to the introduction of rupee bills in India?

Dr. Trip: No.

Mr. Manu Subedar: You are aware that in the case of import bills the rates at which the charges are calculated, including exchange charges for sending money to the bank, are very high?

Dr. Trip: It is about 6 per cent.

Mr. Manu Subedar: It is not, therefore, a ruling rate in the foreign market. The Bank of England rate may be 3 per cent., but the Indian importer has to pay 6 per cent. including further interest on the time that the money will take to reach the bank and exchange charges both ways. It is not therefore a cheaper rate for the importer?

Dr. Trip: No, but this arrangement is special with regard to small importers.

Mr. Manu Subedar: Then why did you say that it is a matter of practice established on account of the existence of foreign banks? It is not a matter of trade convenience.

Mr. Jamal Mohamed: There is one point here: you refer to the interest in other countries and in India. The English rates may be cheaper than the Indian or other rates, but it need not be that the rates of every other country would be cheaper than the English rate.

Dr. Trip: No.

Mr. Jamal Mohamed: Then there should be no impediment in having rupee bills in these particular cases?

Dr. Trip: There is no objection if the parties agree to pay the higher rates.

Mr. Jamal Mohamed: But the transaction takes place in a foreign country where there are no Indian banks?

Dr. Trip: Do you really think that foreign banks can decide that? I have found here that there is a keen competition among the foreign exchange banks.

Mr. Jamal Mohamed: Suppose an article has to come from Germany; the negotiations will be carried on through some German bank or some English bank which has a branch in Germany; they are not very keen about rupee bills. They might prefer a bill in marks or sterling. Does the fact that there are no Indian banks doing that business now help the present position?

Dr. Trip: I cannot see any reason for a foreign exchange bank, that is not an Indian bank, to prefer sterling to rupee. They transact their business in all kinds of currency. It depends not on the free will of the banks to prefer a certain currency, but on the sellers and purchasers who are the parties to the transaction.

Mr. Jamal Mohamed: In one of your papers you said that India has extended its trade in many foreign countries and that the result has been that many foreign banks have come into the country.

Dr. Trip: Yes.

Mr. Jamal Mohamed: When these foreign banks find some little trade passing between their country and this country, they think they have the right to establish branches here; why should not India have its own banks when it has so much to do with foreign business? The fact that it so happens that we have no Indian banks doing foreign exchange business has turned this business into certain channels, but as you said, it is not very easy to start it now.

Dr. Trip: It is always difficult to start a new business.

Mr. Jamal Mohamed: In reply to Mr. Lamond you said yesterday that in other countries Government interfere less with bank rates and things like that. Do you not think that when the Reserve bank comes into existence, it would be able to do the same thing as other banks now do, *viz.*, tiding over the busy season, expansion of credit, etc., much better than is being done by the Imperial Bank?

Dr. Trip: Yes.

Mr. Jamal Mohamed: So trade and agriculture would be much better fed and the cost would not be an ill-spent one?

Dr. Trip: No.

Mr. Jamal Mohamed: This morning, in reply to Mr. Rushforth, you said that the cash reserves in India are too small.

Dr. Trip: I had the impression that it was the case.

Mr. Jamal Mohamed: Would you just make the point a bit clear? In what respects are they small?

Dr. Trip: In an agricultural country, and a country which in its international position is a debtor country, the Reserve Bank ought to have strong reserves. In the Interim Report of the Gold Delegation in Geneva, you will find that, fearing that the future gold production will not be sufficient to cover all needs, they made the suggestion that it should be possible to reduce the minimum legal cover ratios between gold and gold securities on the one side, and the liabilities of the Reserve Bank on the

other side. They stated however that agricultural countries and debtor countries would want a higher ratio than countries with a more varied economy or a strong credit position.

Mr. Jamal Mohamed: You do not mean silver resources, but only gold resources?

Dr. Trip: I mean credit and currency resources.

Mr. Jamal Mohamed: So your point is that a country which is agricultural must have cash resources on a larger scale than other countries?

Dr. Trip: I think so.

Mr. Jamal Mohamed: You are in favour of one Central bank with branches in the provinces?

Dr. Trip: Yes. I do not doubt that if once the Reserve Bank is started, there will gradually grow a number of branches all over the country.

Mr. Jamal Mohamed: Is that the experience in other countries?

Dr. Trip: Yes. I think the German Reichs Bank have about 450 branches all over the country; the Bank of France have, if I am not mistaken about 600 branches.

Mr. Jamal Mohamed: You are not against the gradual spreading over of the Reserve Banks throughout the country?

Dr. Trip: No, I am not.

Mr. Jamal Mohamed: As a matter of information, would you tell me if the Reserve Banks in the western countries are State Banks or Shareholders' Banks?

Dr. Trip: Shareholders' Banks.

Mr. Jamal Mohamed: All of them?

Dr. Trip: Yes, I cannot remember any State Bank.

Mr. Jamal Mohamed: But for India which do you think you would prefer, a State Bank or a Shareholders' Bank?

Dr. Trip: A Shareholders' Bank.

Mr. Jamal Mohamed: In view of the fact that our people are not so well educated or so highly developed as in other countries and that they are still not in a position to take care of themselves, do you not think a State Bank would be preferable for India?

Dr. Trip: I do not think so. I think it is much preferable for the country to have a Shareholders' Bank.

Mr. Ramdas Pantulu: Mr. Jamal Mohammad was drawing your attention to the fact that the Imperial Bank was really competing with the other commercial banks because it has got a large amount of Government balances under its control and, therefore, is able to quote better than commercial banks. Do you think that such a complaint is genuine?

Dr. Trip: I must say that there are certain grounds for the complaint, although the Imperial Bank is under the obligation to perform several duties against these balances.

Mr. Ramdas Pantulu: If that is so, you would take great care to see that the Reserve Bank, when it takes over the Government balances, will not be allowed to do business in such a way as to compete with the joint stock banks in the country?

Dr. Trip: They would not compete in the ordinary way in order to make profits. They would, however, have to compete in cases where they have to make their influence felt in the country.

Mr. Ramdas Pantulu: How would you then ensure, without a statutory provision, that the Reserve Bank will not as a matter of fact compete with the commercial banks?

Dr. Trip: By appointing a management of the Reserve Bank that thoroughly understands the position of a Reserve Bank, its tasks and the limitations that are to be observed in order to be a good and strong institution . They will moreover be compelled to observe these limitations since they are obliged to safeguard the position of the currency.

Mr. Ramdas Pantulu: So your view ultimately is that the beneficent effects of the Reserve Bank would depend on the good management?

Dr. Trip: That is so.

Mr. Ramdas Pantulu: So we have to ensure that the Directorate of the Reserve Bank would function in the interests of the nation as a whole.

Dr. Trip: Absolutely. A Reserve Bank is an institution which has to serve in the first place the interests of the country as a whole.

Mr. Ramdas Pantulu: Much depends on the national outlook of the Directorate of the Reserve Bank.

Dr. Trip: I do not know what you mean by national outlook. I would say in the interests of the country as a whole.

Mr. Ramdas Pantulu: How would you secure such a Directorate? Would you give us your views on how the Reserve Banks in other countries function?

Dr. Trip: I think in most countries they have the power to do foreign exchange business, as is very largely done in my country, and perform open market transactions, for instance, the buying and selling of Treasury bills as is done in England.

Mr. Ramdas Pantulu: In those countries there is no competition between commercial banks and the Reserve Bank?

Dr. Trip: Not generally, but of course the Reserve Banks of all countries do business which could be done by commercial banks. They, however, ought not to compete in order to make large profits but only as far as is necessary to enforce their policy in the interests of the country.

Mr. Ramdas Pantulu: There is a large volume of opinion in this country which believes, that the Reserve Bank, when it comes into being, might do much worse than the Imperial Bank does at present in the matter of competing with commercial banks with Government balances in their hands.

Chairman: That is an assumption.

Dr. Trip: I cannot say who will be in charge of the Reserve Bank and its management.

Mr. Ramdas Pantulu: This leads me to the question of the composition of the Reserve Bank. Do you think that a Directorate which can be expected to act in the interests of the country can be secured by making the Reserve Bank a State Bank or a Shareholders' Bank?

Dr. Trip: A Reserve Bank, from a theoretical point of view, can be run on sound lines in both ways. As I have already said in practice, I prefer a private institution because I am very much afraid of Government interference. That is the feeling practically in all countries.

Mr. Ramdas Pantulu: Those who objected to a shareholders' bank were largely influenced by the fear that, in this country, European interests will predominate because of the various Exchange Banks which can become members and because Indians do not generally take interest in the proper working of the bank by being shareholders, *i.e.*, by not caring to attend shareholders' meetings and so on. We have an example in Madras. The Electrical Tramway Company was originally financed by Indians, but now they are almost exclusively owned by Europeans by the latter buying up all shares from Indians.

Dr. Trip: Generally speaking, I must say, quite apart from the provisions in the charters of the Reserve Bank, that if there is a good management, it will have a great influence on the shareholders. Moreover, in my country the powers of the shareholders are very limited. Apart from the appointment of directors, they can merely attend the general meetings, hear the Governor's report and see the balance sheet and the profit and loss account, without having any substantial influence on the management.

Mr. Ramdas Pantulu: A few of the Directors would ordinarily be nominated by Government but the other Directors will be from the ordinary shareholders. That being the case, there is just a possibility of a preponderance of vested interests getting in.

Dr. Trip: I do not think that will be the case. Take the case of the Governor of the Bank of England. He occupies a supreme position and if the Directors would compel him to adopt a particular line of policy, to which he is opposed, then certainly he would resign. Conditions may vary in different countries, but if proper men are not available you cannot run a Reserve Bank on safe lines. You must get the right sort of men.

Mr. Ramdas Pantulu: In order to avoid making it a shareholders' bank, supposing we say that shares should not be transferred to people who are not domiciled in India or are not subjects of this country, then do you think that will have a good effect?

Chairman: I think there was some such provision in the old Reserve Bank Bill.

Mr. Ramdas Pantulu: I know, but I wanted to have the opinion of Dr. Trip. Supposing it is decided to have a State Bank; then how would you recommend the composition of the Directors? What is your experience of the working of State Banks in other countries?

Dr. Trip: I cannot think of examples of State Banks at the moment.

Mr. Ramdas Pantulu: What is the position in Australia?

Dr. Trip: They have now converted the Commonwealth Bank into a Reserve Bank, but I do not know the provisions that govern its working.

Mr. Manu Subedar: In your bank in Holland, is there any provision which ensures that the Governors and Deputy Governors shall be Nationals of Holland?

Dr. Trip: Yes, absolutely.

Mr. Manu Subedar: Would you not advocate such a provision in the Indian Reserve Bank when it comes into being?

Dr. Trip: With regard to the facts that the Reserve Bank will have a difficult task to perform in this country and that no experience is available, I would try to get the very best men to manage the Bank whether from this country or from abroad. If the right type of men could not be found in this country, they they should be brought from abroad. Really first class men with vast experience and knowledge must be had.

Mr. Manu Subedar: Would you suggest any earliest opportunity thereafter, when such a provision of having Nationals alone being put in charge could be brought about?

Dr. Trip: I cannot say.

Chairman: If it is possible to secure a National of the required standard then you would give him preference to a foreigner?

Dr. Trip: That is so.

Mr. Ramdas Pantulu: on the whole, you advocate the creation of a shareholders' Bank?

Dr. Trip: Yes.

Mr. Ramdas Pantulu. Do you not think that there are any special conditions in this country which will make a State Bank much more useful and suitable to India than a shareholders' Bank?

Dr. Trip: I should say no. I think a private bank with a strong man at the head is the best institution for India.

Mr. Ramdas Pantulu: We are now contemplating the establishment of a Reserve Bank. But owing to the constitutional changes that might come in, when Indians will have a larger share in the Government of the country and when the Legislature controls the executive, it might possibly be considered that a State Bank would be more suitable than a private shareholders' bank. Of course, if the present state of Government continues I would not advocate a State Bank, but when the Government becomes a National one, I do not see why we should not prefer a State Bank.

Chairman: I think when the Government becomes a National one, even if the Reserve Bank becomes a shareholders' bank, sufficient control and guidance would be exercised by the Government by its influence over that institution, as is not unusually done in other countries, so long as that influence is properly exercised in the proper interests of the country.

Mr. Ramdas Pantulu: I would have accepted that but for the talk of the vested interests in this country being safeguarded.

Dr. Trip: All that the Government have to do, with regard to the Reserve Bank, is to see that the best men that are available are put in charge of the policy of the Reserve Bank and after they have done that, they should leave the Reserve Bank to adopt and follow its own policy.

Mr. Ramdas Pantulu: Now with regard to the development of the bill market, the position is that in this country the discount rate of bills is higher than the Bank rate. In my opinion these high rates discourage the creation of a Bill Market. I understand that in other countries the discount rate

is generally below the Bank rate while the cash credit rate is above the Bank rate. So do you not think that if the bill market is to be developed the discount rate should be brought down?

Dr. Trip: I am of opinon that the rate at whch bills can be discounted depends partly on the quality of the bill. I think that if the rates are comparatively high for discounting bills then the position and standing of the parties who are the signatories to the bill are not fully or sufficiently known to the banks or are less satisfactory. Such a state of affairs can be improved only if the banks come to know more about the standing and status of the parties concerned in the bill.

Mr. Ramdas Pantulu: Therefore, the prospect of improving the bill market in this country will depend upon the attitude the banks take and the quality of the signatories on the bill.

Dr. Trip: I do not think that it is within the power of the banks alone. I am, however, of opinion that the creation of a Reserve Bank would encourage the bill habit in the country. Whether that will succeed will depend on the quality of the bills.

Mr. Ramdas Pantulu: Are you satisfied that the high discount rates are due to the interior quality of the bills available or do you think it is due to the attitude taken by banks?

Dr. Trip: My impression is that the banks, to a certain extent, prefer to have real security behind their credits and I must say I quite agree with them under present conditions. I think that the security of the bills in this country is not great enough to make banks rely only on bills to a large extent and therefore the Reserve Bank too will have to work, during the first few years, partly on the basis of having collateral security.

Mr. Ramdas Pantulu: You have suggested that one of the ways to help the creation of a Bill market in this country is the establishment of warehouses all over the country. It is a sound advice, but I would like to know some particulars of your scheme. You refer to a single private company. Is it a practicable scheme?

Dr. Trip: I discussed that point with Lala Harikishan Lal and told him that I have no objection to provincial corporations. My principal point is that the corporations should have such a sound financial standing as to inspire the banks with confidence and to enable the latter to accept the warehouse-receipts without hesitation.

Mr. Ramdas Pantulu: Do you think that Government should license these warehouses in order to create more confidence in banks?

Dr. Trip: I do not attach much value to licensing and I think this is a subject which should, in the first instance, be left to private enterprise. Moreover, banks cannot be compelled to accept warehouse receipts only because the issuing corporations have a Government licence.

Mr. Ramdas Pantulu: Let me tell you that our fear is that unless some system of authoritative licensing is introduced, British banks will discriminate between Indian owned warehouses and non-Indian owned warehouses. With the stamp of licence it will be more difficult to discriminate.

Dr. Trip: Of course it is a task for the Reserve Bank to consider the position of the warehouse companies.

Mr. Ramdas Pantulu: That is true, but with regard to the banks, they cannot be compelled to accept these bills. If they reject some, then people have no grievance to make because they say the bank is not satisfied.

Dr. Trip: I must say here again, that the system of licensing would result in a great responsibility for the Government. They would have to control these warehouses and would have to enter a field which is not a field of the Government in my opinion. I would much prefer to leave that to the Bankers' Association and the Reserve Bank.

Mr. Ramdas Pantulu: I am afraid if you leave it at that, many people who would spend their money in the warehouses may be ruined. Generally, they will have to go only to particular warehouses and these warehouses can always put up their rates. I visualize many dangers if it is left to private enterprise and is not licensed by some responsible authority.

Dr. Trip: Of course, it is a personal opinion, but I am not accustomed to look at things always under a fear of discrimination. I prefer to look at the good business line, not at the possibilities of discrimination. I always think if you have real good institutions, the discrimination will not be so strong as you seem to think.

Mr. Ramdas Pantulu: Therefore, you say we have made a proposal which may seem somewhat strange. I quite agree because abnormal conditions exist here which do not exist in your country.

Dr. Trip: Even starting from that point, as I told you, I think the first thing, that in my opinion ought to be the aim, is to start a good and strong Reserve Bank in the country. If you have that and you have really good men in charge of it, I am absolutely convinced that the decision of that Reserve Bank with regard to the warehouses would be accepted by the whole banking community of the country.

Mr. Ramdas Pantulu: We are contemplating these warehouses even apart from the Reserve Bank because we think that the facilities for the discounting of these bills will be increased, *e.g.*, with regard to jute, and we have also put forward proposals with regard to commercial banks. Therefore it is not merely a question of Reserve Bank alone. Therefore the warehouse receipts will be particualrly useful under existing banks; so I am asking your experience in Java with regard to the way in which warehouses are managed there.

Dr. Trip: Well, they are managed partly by private companies, partly by the banks themselves and partly they are owned by traders. Also in this respect we follow the open door policy and among the private companies one is owned by Japanese interests. The Java Bank considers the position of these warehouse companies and if it is satisfied, the company is placed on the list of the Java Bank. The receipts of these approved companies are accepted by all the private banks too. Don't you think that the banks, even in a country where there is such great fear of discrimination, want to do as much business as is possible on a safe basis? I cannot really see that in this country there can be such discrimination that if the banks se ethat a warehouse company is run on sound lines and gives the security they want, they would not take the bills of that warehouse company, because they want to discriminate.

Mr. Ramdas Pantulu: Your question is certainly reasonable. To you, coming from a self-governing country, it would appear strange that Indian concerns should suffer by foreign discrimination against them. But things are strange in this country. Take the financing of jute. The Bengal Provincial Banking Enquiry Committee say that not a single Indian broker is allowed to approach or deal with the jute manufacturers.

Dr. Trip: I read the report but I could not understand it.

Mr. Ramdas Pantulu: The entire sale of the jute mills is sold absolutely cent per cent to European brokers and no Indian broker is allowed to approach them. The position of these concerns is so strong that they can certainly compel people to go to certain warehouses.

Mr. Lamond: I thought there was an Indian Jute Brokers' Association?

Mr. Manu Subedar: We shall ascertain that from Mr. Khaitan. I know one or two individuals who are doing jute brokerage. They say they secure a concession and then they have to put that transaction through a European broker who gets half the amount without doing one stroke of work.

Mr. Ramdas Pantulu: You ask me whether the Indian Jute Mills do not deal with Indian brokers? There are only about 3 Indian mills out of 40 or 50. But if the non-Indian mills exclude the Indian brokers my point about discrimination is considerably strengthened and the danger I have pointed out about discrimination against Indian owned warehouses becomes more real. Therefore, I am asking you whether in the matter of establishing these warehouses it would not be risky to leave it merely to the banks to lay down standards instead of appointing a licensing agency which will give them a procedure, which will entitle them to go to the banks and say—"we are a licensed warehouse, therefore our receipts should be accepted." Of course we won't compel the banks, but, nevertheless, that would be a guarantee, and discrimination would become less real.

Dr. Trip: In my opinion you must always leave the decision with the banks and if the banks are in favour of discrimination, you can never compel them to take the receipts even of licensed warehouses. The only thing you can do, if such discrimination as you think does really exist, is to try to come to a better understanding.

Mr. Ramdas Pantulu: With regard to the warehouses in Java, is there any standard for the charges?

Dr. Trip: It is left to competition.

Mr. Ramdas Pantulu: How far do Co-operative Banks in your country and elsewhere depend upon the money market? Do they alter from time to time their lending rates to societies and members with the official Bank rate.

Dr. Trip: Only with regard to their short term credits. They are certainly, as far as my country is concerned, influenced by the situation of the money market.

Dr. Friederich: In my country when the official rate of our Reserve Bank changes, then our bank changes the rate of interest and of course the central banks have to change too. The margin is always the same.

Choudhri Mukhtar Singh: Are there any warehouses for any other produce, besides sugar, in Java?

Dr. Trip: Yes, for various products of the population and the plantation companies; in Java the trade is mostly in the hands of European firms and Chinamen, and many Chinamen have their own warehouses. They gather the products from the population and put them in their own warehouses.

Choudhri Mukhtar Singh: Are there better warehouses for wheat and rice that are sold at a very cheap rate?

Dr. Trip: Yes, except that no wheat is grown.

Choudhri Mukhtar Singh: Can you give us some idea as to what would be the percentage of charges for insurance on, say, rice?

Dr. Trip: I could not give you a percentage at the moment, but in any case those charges are not so high that they restrict business.

Choudhri Mukhtar Singh: It has been suggested that here the rent charges are very high so the things do not pay. All these warehouses you say are run by private concerns, so it must be a paying job?

Dr. Trip: Yes. Not so very profitable, but it is a paying job.

Choudhri Mukhtar Singh: In that case either their charges must be very high or the amount of produce must be very large, or the turnover must be very large. I want to understand how it is that those warehouses are a paying job—simply an approximate idea.

Dr. Trip: Of course they make it a paying concern by the profits they make on the charges that they levy on the products that come into the warehouses. Although these charges are not high, generally speaking, they make a reasonable profit. They pay, let us say, a dividend of 6 per cent. or so.

Choudhri Mukhtar Singh: What would be the cost of a warehouse in Java?

Dr. Trip: I cannot say. It would depend on the size.

Choudhri Mukhtar Singh: It will always depend on the size. Money was given to the Co-operative Banks but they could not utilise it.

Dr. Trip: I cannot really understand that in this country, where there is such a huge amount of products, warehouses which are properly run would not be paying concerns.

Choudhri Mukhtar Singh: You consider that it is a business proposition for India also?

Dr. Trip: Oh yes, absolutely.

Choudhri Mukhtar Singh: But is there an official authority for this work of grading in the warehouses?

Dr. Trip: No, grading is practically done by the Agents of the banks themselves.

Choudhri Mukhtar Singh: How is it done; there may be a certain standard and certain authorities . . . . . .

Dr. Trip: I never heard that there was any trouble on the question of grading. We have not the same products that come in here. I do not know whether the grading of jute or wheat would make a great difficulty. We have large quantities of sugar, rice and other agricultural products. So far as the banks are concerned, it is done very easily by the Agents who have their standards.

Choudhri Mukhtar Singh: Unless there be some uniform standard, will it not create a confusion in the market?

Dr. Trip: I cannot say. Of course it makes a difference whether you are buying for trade purposes or whether you are lending money on the products as securities. The banks always take a considerable margin.

Choudhri Mukhtar Singh: In that case do you not consider that it would be a better policy to have a uniform standard?

Dr. Trip: It may be useful, but it is not necessary for the business of the banks.

Choudhri Mukhtar Singh: For marketing purposes, I think, it would be a very great help, especially for those products which are exported to other countries.

Dr. Trip: But that is more a trade business than a banking business.

Choudhri Mukhtar Singh: I am simply asking whether it would not be very much better if the grading is done by the State?

Chairman: That is a question I shall put to Mr. McDougall. Dr. Trip can deal with the question only from the banking point of view.

Choudhri Mukhtar Singh: Is there any licensing?

Dr. Trip: No.

Choudhri Mukhtar Singh: I do not consider that there is any need for going into the details of the Reserve Bank Bill with you, but, at any rate, I feel that in the constitution of the Reserve Bank the representation given to agriculture in Section 9 is only 1 out of 22. Do you really consider that is quite enough?

Dr. Hyder: Is it given to agriculture or something else?

Choudhri Mukhtar Singh: Then it means there is no representative for agriculture? There are two Directors on behalf of the European Chamber of Commerce, two directors of the Indian Chamber of Commerce and four Directors representing the interest of commerce. The Bill was actually discussed in the Assembly and the Government agreed to put two and one but the conclusion was not reached. They agreed to make it to Co-operative banks.

Dr. Hyder. It is for the Co-operative banks, and not for agriculture.

Mr. Lamond: The difficulty is to find someone.

Dr. Hyder: That is quite a different matter. That one Director represents the Co-operative Banks; he does not represent agriculture.

Choudhri Mukhtar Singh: It clearly says representing the interest of agriculture.

Dr. Hyder: It is a case of legislation stating just the opposite. They may be interested in the financial side of agriculture.

Choudhri Mukhtar Singh: They should not have been there.

Chairman: To my mind this is precisely the sort of thing which will have to be settled by the legislature. It is obviously unfair to ask particular questions.

Choudhri Mukhtar Singh: My point is simply this. From his point of view does he consider that there is theoretically any necessity for any agricultural representative on this Reserve Bank?

Chairman: That is another matter. If you wanted to know whether it was at all necessary that on the Directorate of this bank different interests should be represented then the question can be put to him.

Choudhri Mukhtar Singh: Do you consider it necessary for a country like this, that there should be some representative of agriculture on the Reserve Bank?

Dr. Trip: I think it useful to have agriculture represented although, in my opinion, the Reserve Bank cannot be of much direct help to agriculture in the first few years.

Mr. Devadhar: What representation is there on the Reserve Bank of your country.

Dr. Trip: There is no special representation for agriculture although there are several members of the central and local advisory boards who are conversant with agriculture. They can give information to the management but they have no vote.

Choudhri Mukhtar Singh: Page 5, portion underlined. Is it done anywhere in your country.

Dr. Trip: Yes, in the Dutch East Indies. The Netherlands Bank is also allowed to do it although this part of their business is not of great importance.

Mr. Devadhar: There must be big and small warehouses. How are the small warehouses managed in primary markets?

Dr. Trip: In the Dutch East Indies, in the smaller places, they are practically owned by the traders themselves who are generally Chinamen. These Chinamen have the products in their godowns and when they want credit on the products, they transfer the godown to the bank.

Mr. Devadhar: Is there any difference between a godown and a warehouse.

(*Some Member*: They are the same.)

Mr. Devadhar: Have you come across any small godown or warehouse maintained by any co-operative institution?

Dr. Trip: We have no co-operative societies in the Dutch East Indies as you have here. Warehouses are owned by traders, banks, and private warehouse companies.

Mr. Devadhar: Would you be in favour of such small warehouses being owned and controlled by co-operative institutions in primary markets?

Dr. Trip: I am in favour of it.

Mr. Devadhar: They will not give any finance. Somebody will have to finance.

Dr. Trip: From the banking point of view I would be in favour of it.

Choudhri Mukhtar Singh: Will the cultivators put their produce in these warehouses or will only merchants do it?

Dr. Trip: In the first instance the traders will do it. Not the cultivators. I do not think the position of the cultivators will allow them to do it at the present stage.

Mr. Ramdas Pantulu: They can, if they have resources. There is no prohibition.

Dr. Trip: No.

Chairman: Generally speaking it is the trader that buys the produce from the agriculturist and puts it into the warehouse.

Dr. Trip: Yes.

Chairman: In India, the man who has stock approaches the bank, hands over the stock to the bank and gets money.

Mr. Ramdas Pantulu: There is no prohibition against any producer putting his goods in the warehouse.

Chairman: Generally it is the trader that does it.

Dr. Hyder: Money market involves two parties: buyers, sellers, or lenders and borrowers. Money is bought and sold in the money market. Buyers are borrowers and lenders are sellers. I want to compare the position of the money market in India and in England. Who are all the buyers? One party is Government. It gives treasury bills and takes money. Banks are another; they could be buyers. The third party is the trader. Co-operators can enter as buyers and sellers. I mean not the co-operative societies, but the banks at the top. These are all borrowers. Who are the lenders?

Dr. Trip: Bankers.

Dr. Hyder: Any other people.

Dr. Trip: All the people who have at their disposal large sums of money and want to invest them profitably for a short time, such as insurance companies, shipping companies.

Dr. Hyder: I have in my mind chiefly the London money market.

Dr. Trip: Bill brokers, discount companies, and merchant bankers borrow in the London money market. Banks can operate both as borrowers and lenders.

Mr. Cassels: Stockbrokers are big borrowers at times.

Dr. Hyder: Will you grant that the chief function of the money market is really to enable banks to function properly. If a bank has surplus cash, it will lend freely to bill brokers. If its cash position is not good, it calls back its advances and does not discount any more. From the point of view of liquidity and of making the best ust of bank's resources, the money market has got a very important function to fulfil. You remark that the money market here is defective. Please turn to the table on page 18 of the office memorandum on the money market. Bank rate may mean anything. Call rate, heaven knows what it is. Hundi rate is bazaar bill rate. If you go over the figures you find that there is a difference between Calcutta and Bombay bazaar rates. If you found that there was such a position in your country, what practical measures would you suggest in order to remove this disparity in rates between two places.

Dr. Trip: I would try to establish a better connection between the two markets.

Dr. Hyder: Please put it in a concrete form.

Dr. Trip: I have an impression that the bazaar rate is based especially on small bills.

Dr. Hyder: Small traders, small bills, men of doubtful abilities, you find them in both the places. The noticeable character is that there is disparity in rates, never mind the parties to the bill. How will you overcome it?

Dr. Trip: By trying to make the bills discounted now in the bazaar acceptable to the operators in the central money market, so that they can be discounted in the central money market.

Dr. Hyder: We have two or more money markets. How can they become one?

Dr. Trip: If you can, as I hope you will, improve the position of the indigenous bankers and give them admittance to the central money market more than is the case at present, and even to the Reserve Bank, the disparity would be less.

Dr. Hyder: You look at all the figures. The Imperial Bank hundi rates are lower than bazaar bill rates, and they also vary. The bazaar bill rates are also, obviously, hundi rates. You suggest that the gentlemen operating in the bazaar ought to make themselves better known to the gentlemen of the Imperial Bank.

Dr. Trip: Yes.

Mr. Lamond: This bazaar hundi rate is very often the rate charged for bills subsequently discounted by us.

Dr. Trip: Mr. Cassels made a remark that the Imperial Bank rate is always the same as their hundi rate.

Chairman: Not always. If you start from the beginning of this table, in 1925-26, 1926-27, you find there are differences. But when you come to later years, I agree, there are no differences. I think Mr. MacDonald in his evidence before us said that the tendency was to make the two the same.

Mr. Lamond: Yes.

Dr. Hyder: I have read that in the English money market, a bill broker operating in the discount market can, if refused accommodation by banks, get in the Bank of England an unfailing source of assistance, at a stiffer price, of course, but without limit. Is that a fact?

Mr. Currie: Yes.

Dr. Hyder: That is, the Central Bank is the last father and mother of the bill brokers. If you have a Reserve Bank which puts a limit on bills, obviously the broker, if he gets hard up, cannot expect unfailing accommodation from it. There will be no utility therefore if legislative provisions are drawn up that so much shall be given to agriculture, so much to industry, and so on. It is much better, in order that the money market may be truly organised, that there should be no limit laid, provided these people brought the same commodity, and obeyed all the conditions imposed by the central institution.

Dr. Trip: Yes.

Dr. Hyder: In all the money markets of the world, what might be called bazaar rates of discount are always lower than the rate of discount granted by the central institution. Is that a fact?

Mr. Currie: It is so in England.

Dr. Hyder: The Imperial Bank rate and the Imperial Bank hundi rate are always less than the other rates. Any man who reads these figures must come to the conclusion that the economic interests of the country must suffer. What is the reason for the high rates in the bazaar and the low rates in the central money market.

Dr. Trip: As I see it, in the central money market, they deal with better bills of larger amounts, and in the bazaar with small bills. In my opinion the Imperial Bank starts from its rate on loans against securities, and then adapts the hundi rate to that of loans against securtiy.

Dr. Hyder: So there are two commodities, not one. Small bills constitute one sort of commodity at a higher price, and the big central bazaar bills constitute another at a much cheaper price. That is the position.

Dr. Trip: That is, in some respects, the position in other countries too. You have in England the fine bank bill rate and other rates which are higher.

Mr. Currie: The size of the bill has nothing to do with the price. It is the standing of the party that counts.

Dr. Hyder: It seems to me, if we were to reproduce, conditions as they exist in England, it would be a good thing if our indigenous banker took a position in the money market which the London accepting house or merchant banker occupies. Some may be bill brokers. Some, who are small, may organise themselves into discount companies.

Mr. Currie: There are bill brokers in this country.

Dr. Hyder: Some may operate on their own account. You think it will be a good solution, if the race of indigenous bankers should not go out of existence, that they should be organised on the lines I have indicated, namely, merchant bankers, discount houses and bill brokers.

Dr. Trip: If it could be done, that would be very good.

Dr. Hyder: How to make these small bills first class bills so that the wide variations in rates may disappear. Put the name of Girdhari Lal, a first class merchant banker, on a bill payable three months hence; no banker should show any hesitation in accepting such a bill. He should treat it as a first class bill and charge the bank rate of discount.

Dr. Trip: Yes.

Dr. Hyder: Can you make any suggestions for bringing the central money market and bazaar standards on the same plane?

Dr. Trip: If there was full knowledge of the financial standing and position of the signatories to the bill and if the Reserve Bank would give inducement to use good trade bills in preference to other ways of borrowing money from the Reserve Bank, then I think everything that could be done would be done.

Dr. Hyder: I understand that, in Calcutta, some operate in the Burra Bazaar and some in Clive Street. There is this physical separation. If this could be lessened through telephone or by any other means it will be a better thing.

Chairman: So far as I know the contact is very close.

Dr. Hyder: The rates do not show the contact.

Chairman: That is another matter. That is money making.

Dr. Hyder: Do we come to this conclusion that the gentlemen operating in the Burra Bazaar market operate with their own resources, charge their customers 9 and 10 per cent. in order to make money, and go to the bank when they get hard up.

Mr. Lamond: That is the position.

Dr. Hyder: Money-making is a universal tendency. Why does it not happen in your country? Bill brokers, if they could, would like to make more money. But the fact is that there is only one price and there is no such rate as 10 per cent.

Chairman: One reason is probably the absence of the indigenous banker.

Dr. Hyder: In place of the indigenous banker, you have the merchant banker in England.

Chairman: He may be a specialised banker, but so far as I know, his methods differ fundamentally, from the indigenous banker.

Dr. Trip: I think the only way by which it could be done is by bringing more money to the market; it is a question of supply and demand, and until more money goes into the hundi market, the rate will not come down. If the parties that now operate there have to pay a higher rate in the hundi bill market, they would have a possibility of going to other markets where the price is low. If you open the door to the commercial banks and the Reserve Bank, the rate would tend to decline.

Dr. Hyder: The only question is how to attain the object.

Dr. Trip: I have not the key to open the door; I thought the key could be the indigenous banker.

Dr. Hyder: In the money market of your country I take it that the Stock Exchange plays a very great part and also the foreign exchange market?

Dr. Trip: Yes.

Dr. Hyder: There parties are brought together, here the parties are always distant. Have you found any connection between our money market and the operators of the Stock Exchange?

Dr. Trip: No.

Dr. Hyder: In other countries there is this connection?

Dr. Trip: Yes.

Dr. Hyder: Take, for instance, your fortnightly rates, they either take the cash away or bring money and that is how the same level is maintained, and people are charged, more or less, about the same price. Here we have a multiplicity of people, multiplicity of markets and multiplicity of rates, with the result that trade and commerce and economic interests generally suffer.

Dr. Trip: Do you not think that the general factors, at the bottom of the whole situation, are lack of confidence and lack of knowledge?

Dr. Hyder: The only practical key for the solution of the problem is what you suggested, that these people should make a full declaration of their position to the banks?

Dr. Trip: No doubt it would greatly improve the situation, but I cannot say whether that is the only way to follow. I think it is the first thing to be done.

Mr. Manu Subedar: All the solutions which you have given here would solve the problem in so far as it would bring the bill rate to the bank rate. But I find that in your country the bill rate is 1¼ per cent. under the bank rate?

Dr. Trip: At the moment, yes.

Mr. Manu Subedar: It is generally the case?

Dr. Trip: The bill rate is generally lower than the bank rate.

Mr. Manu Subedar: Would you kindly take your advice a little further than what you have done and tell us what situation we would have to create in India in order that the discount rates for first class commercial bills may be actually lower than the bank rate?

Dr. Trip: It is very difficult to give an advice on that, because it depends on circumstances. As I told you, the whole question results from supply and demand and if there is a large supply of money in this country, then the rate for first class bills would go down, because the demand for first class liquid investment would increase.

Mr. Manu Subedar: Except a proper organisation for credit broad based on sufficient security as well as liquidity and the supply of credit, there is no other factor in your country which gives you a lower rate for first class trade bills than the bankrate.

Dr. Trip: Amsterdam is an international market to which a great deal of money flows.

Mr. Manu Subedar: I suppose there is a large amount of foreign money locked up in these money centres which also helps your money markets, and to that extent induces a lower rate

Dr. Trip: Yes.

Mr. Manu Subedar: So far as London is concerned, there is also a very large amount of Indian money locked up, which goes to help the London money market.

Mr. Currie: I doubt if there is a lot of Indian money in the London money market.

Mr. Manu Subedar: I do not know how many millions of sterling our total resources in London would amount to, taking Government and private money. It certainly runs into a very large sum.

Mr. Currie: That money is invested in London.

Mr. Manu Subedar: It is the total amount of Indian resources in the London money market.

Dr. Trip: Of course, Government have in London a large amount in Treasury bills or other English Government securities, but that is part of the cover of the circulation in this country. It is practically the same as gold. If you look at the figures of the Netherlands bank, you will see what a large amount they have in foreign countries. That is the result of the policy followed by them.

Mr. Manu Subedar: But the total amount of Dutch money which is outside Holland would not be more than the total amount of foreign money in the Amsterdam money market?

Dr. Trip: I do not think it is, of course, apart from our foreign long term investments.

Dr. Hyder: I understand, from books I have read, that there is an intimate relationship between the difference in the rates charged. What is the relation in your country between the deposit rate and the bank rate?

Dr. Trip: It depends on the time for which the deposit is made.

Dr. Hyder: I will take no more than 3 months' deposits.

Dr. Trip: Here again the relation depends on the rate at which the banks are able to lend out their monies. Of course the present situation is abnormal as the banks are not in a position to lend out all the money they have.

Dr. Hyder: I suppose it is correct to say that it is not any rule or regulation, but general convention, that, the rate allowed by banks on deposits is 2 per cent. below the bank rate?

Mr. Currie: That is for ordinary deposits at 14 days' notice.

Dr. Hyder: Three months would be subject to the 14 days' notice.

Mr. Currie: That would be higher.

Dr. Hyder: Take the daily rate, the weekly rate, the 14 days' rate or the monthly rate; you will find an intimate relationship and I was asking Dr. Trip whether he has detected any relationship or whether there is no system or order.

Dr. Trip: In normal circumstances there is a relationship.

Dr. Hyder: The relationship between the official rate of discount and the market rate of discount is that the former rate is a little higher.

Dr. Trip: Yes.

Dr. Hyder: Here, it is the other way.

Dr. Trip: Yes.

Mr. Sarker: There is a provision in the constitution of the Netherlands bank that directors, appointed by the vote of shareholders, must be Netherlanders?

Dr. Trip: Yes.

Mr. Sarker: I also find from a book written by an authority on the subject that in Japan, Italy, Greece, France, Czecho-Slavakia, Australia, and Belgium, similar provisions exist and it is also provided in the constitution of the Bank of England that members of the Court must be natural-born or naturalised British subjects.

Dr. Trip: Yes.

Mr. Sarker: On the lines of this I want to modify section 8 of the Reserve Bank Bill. Clause 8 (1) reads:

"Save as expressly provided in this Act—

(*a*) no person may be a Director who is not or has not at some time been. . . . . ."

After the word 'Director' I would like to put in the words 'who is not a national of India.' Would you kindly give us your opinion on this?

Dr. Trip: It is not a question of banking interest for the foreign experts. It is a problem that does not lie within our purview.

Mr. Sarker: Such provisions have been made in the constitution of the Central banks of other countries; do you not think it necessary that some such provision should be made here?

Dr. Trip: In those countries they have found it possible and desirable to make such a provision. If your Legislature thinks it possible and desirable to do the same thing, we can have no objection, but it is not a question of banking, and we have no opinion on this matter.

Mr. Sarker: You say that the proposed Central banking institution must be free from political influence. I presume you are referring to the freedom from interference in the day to day business of the bank.

Dr. Trip: I refer to the policy of the bank. The management of the bank and the directors ought to decide about the policy of the bank and it must not be interfered with by any action of political parties or even of the Government.

Mr. Sarker: But the larger issues should be settled by the Legislature. In the next sentenec you say "the main tasks of the Reserve Bank would be (*a*) to keep the currency of the country at par with gold." Who will prescribe the par value? It must be prescribed by the Legislature.

Dr. Trip: It is a question of the monetary system of the country and not one for decision by the Reserve Bank. After the Reserve bank has been established, its task would be to keep the currency at par with gold or at a value between the upper and the lower gold points.

Mr. Sarker: If at a subsequent stage, the Legislature found that in the interests of the country such parity should be modified, do you not think that the Legislature would have the power to do it?

Dr. Trip: They would have the power, but I do not know if it would be desirable in the interests of the country to do it.

Mr. Sarker: The monetary standard would also be fixed by the Legislature?

Dr. Trip: Yes.

Mr. Sarker: Section 17 of the Reserve Bank Bill prescribes the ordinary business of the Reserve bank. You know that the financing of the foreign trade of our country is now entirely in the hands of the foreign Exchange banks. We are anxious that a larger share of this trade should be taken up by Indian nationals and with that end in view I will put before you for consideration two suggestions and I want your opinion on these two suggestions. In sub-clause (4) of clause 17 on page 10 of the Reserve Bank Bill, I would like to incorporate a clause that import bills of Indian joint stock banks could be discounted with the Reserve bank, or that the Reserve bank should be allowed to advance money on the security of the import bill endorsed by the Indian joint stock bank.

Mr. Lamond: Bills drawn and payable in India are referred to.

Dr. Trip: I would have no objection if you would only keep it in a general form. Section 17 (2) (*c*) shows that the Reserve bank is entitled to purchase, sell and rediscount bills of exchange and promissory notes, drawn in or on any place

Mr. Sarker: These are export bills.

Dr. Trip: I think, they include import bills, drawn in or payable in India itself.

Mr. Sarker: It is for a different purpose, *i.e.*, for having funds in London, and therefore refers to export bills.

Mr. Buckley: The note on clause 17 (3) on page 3 of the Statement of Objects and Reasons of the Bill makes the point clear. It refers to the Bank having full discretion to purchase and sell the currencies of any foreign country *having a gold standard*. Mr. Sarker referred to import bills.

Mr. Manu Subedar: If section 17 (2) (*a*) were altered so as to omit the word 'drawn', then would it be in order?

Dr. Trip: The point requires further consideration.

Mr. Sarker: I want your opinion as to whether such a provision can be made without marring the efficiency of the Reserve Bank.

Dr. Trip: Yes, I have no objection.

Mr. Sarker: Can the Reserve bank confirm outside credits on behalf of the Indian joint stock banks?

Dr. Trip: I do not think so, because that would practically be acceptance business and acceptance business is prohibited under this Bill.

Mr. Sarker: Against definite securities of the Indian joint stock banks they will put securities with the Reserve bank for endorsing or confirming the credit.

Dr. Trip: I do not think that could be within the tasks of the Reserve bank. The Reserve bank ought to keep its foreign balances and its foreign exchange free, in order to use them for strengthening, if necessary, the position of the rupee; they may not use such balances and exchange on behalf of commercial business. On principle, it would not be right and I do not think you would find any Reserve Bank doing such a thing.

Mr. Sarker: In the present position of India, our joint stock banks cannot have any access to the foreign market, because exporters do not believe them. If they go there with a guarantee from the Reserve Bank, some facilities would be afforded.

Dr. Trip: I fully see your point. The Reserve Bank can only do this in the form of giving information, after the Indian joint stock banks have given full information about their position.

Mr. Manu Subedar: Are they not free to do agency business? They are free to sell foreign currencies to joint stock banks, aren't they?

Dr. Trip: Yes.

Mr. Manu Subedar: They are therefore free to sell even forward currency?

Mr. Trip: I think so.

Mr. Manu Subedar: From this forward exchange sold by them, the joint stock bank can do acceptance business on its own. The Reserve bank does not do acceptance business and it they accept bills emanating from, say, Holland on India, on the strength of the finance made available by the Reserve bank in Holland, would you have any objection?

Dr. Trip: I cannot see how it would work in practice.

Mr. Manu Subedar: Suppose I want to import from Holland goods worth, let us say, £20,000; I go to my joint stock banker and say I am importing from so and so, and so and so will draw a bill on me and I have to make payment for it in Holland. I ask my joint stock bank to arrange all this for me. The joint stock bank will go to the Reserve bank and say that its client has to pay £20,000 in Holland on such and such a date and would ask the Reserve Bank to sell the remittance. Would not they sell the remittance?

Dr. Trip: It is not the business of the Reserve bank. The Reserve bank ought to buy or sell foreign exchange only as far as it is desirable or is necessary for the international position of the rupee. It ought not to do banking business with importers.

Mr. Manu Subedar: I have all my business with an Indian joint stock bank. I want to import from Holland. I have made arrangements for the purchase price and on the date of shipment which would be two months hence I want money to be paid in Holland. What do you expect me to do?

Dr. Trip: The joint stock bank should make arrangements on your behalf and if they cannot do it by themselves, they ought to go to other agencies which are in a position to do it.

Mr. Manu Subedar: Then even after a Reserve Bank is established the Indian joint stock banks will be still at the mercy of the foreign banks.

Dr. Trip: I cannot say that it will be so.

Mr. Manu Subedar: They will have no other method except to go through these institutions.

Dr. Trip: Well, if the Indian joint stock banks are not able to do the business themselves, yes.

Mr. Sarker: In the Hilton Young Commission's Report, full discretion was given to the Reserve Bank for purchasing and selling the currency of gold standard countries. But here a restriction has been put that those countries should be specified by the Government or the Governor-General in Council. I fail to understand why such a restriction is put in.

Dr. Trip: There are two kinds of gold standard countries. London and New York are the two markets which are called free gold markets, where currency or assets can always be turned into gold, irrespective of the fact that the rate of exchange has exceeded the upper gold point. Even if no restriction, as mentioned by you, were put in the Act, it would be advisable to keep their foreign balances mainly in these free gold markets. In Holland and the Dutch East Indies, it is left to the free decision of the banks. But in any case the section seems to be not unreasonable.

Mr. Sarker: Sub-clause (4) of section 17 provides for the making of loans and advances, repayable on demand or on the expiry of fixed periods not exceeding 90 days against the security of stocks, funds and securities in which a trustee is authorised to invest trust money by any Act of Parliament or by any law for the time being in force in British India. Therefore, if I take some Government paper to the Bank, under this clause they are bound to make an advance to me.

Mr. Lamond: Not bound, but the Bank is only authorised to deal in such transactions.

Dr. Trip: That is so. Looking into the circumstances and conditions prevailing in the country, the authorities of the Bank will have to decide whether they will do so on a large scale or on a small scale. Even the Bank of England is allowed to do so but they are free to restrict their operations in this regard. The question of competition is always a very difficult question. Of course one cannot say that the Reserve Bank should not in any way compete with commercial banks. They will ever have the duty to do so, whenever and in so far as it is necessary, in order to enforce their to do so, whenever and in so far as it is necessary, in order to enforce their policy.

Mr. Sarker: First, the ordinary business of the bank has been enumerated and under Section 17 special powers have been given in the interest of the Money Market. I should think that all these powers should be exercised as only special powers.

Dr. Trip: If you want to make the Reserve Bank an effective and influencial body, you ought not to restrict its business unduly.

Mr. Sarker: Sub-clause 14 reads "Provided that the total amount of such borrowings shall not at any time exceed the amount of the share capital of the Bank." "Provided, further, that no money shall be borrowed under this clause from any person in British India other than a scheduled bank." I cannot see how credit can be controlled by borrowing. The first two clauses of the same sub-clause seem to be quite in order but I fail to understand why the third clause is put in. I think that this ought to be done by an open market operation.

Dr. Trip: As far as the Netherlands Bank is concerned it never borrows actively from banks or otherwise. What is your objection to that clause being put in?

Mr. Sarker: If that clause is to be retained, borrowing must be made only by open tender. My view is that preference should not be given to this or that bank. I shall, if you agree, read out to you the opinion of Mr. T. E. Gregory who says that this method should be discouraged.

Dr. Trip: In my opinion it is not a vital part of the scheme. I would not have any objection to the omission of that clause.

Mr. Sarker: In your memorandum you say "In the second place it ought to be emphasised that the position of the scheduled banks under the Bill will be so strong that it is not inconceivable that they will, much more than the Reserve Bank, decide upon the level of the interest rate". I presume you are referring to the resources of the joint stock banks?

Dr. Trip: I refer to the scheduled banks. If these banks can get cheap accommodation from the Reserve Bank and they know that the "Reserve Bank" is not allowed by the Act to give accommodation directly to the customers of the scheduled banks, then the latter will be in a position to charge unduly high rates.

Mr. Sarker: My point is that the exchange banks will not go to the Reserve Bank for their needs and this fact is strengthened by the evidence of Mr. Nicoll, General Manager, National Bank of India, which reads as follows:—

"*Sir Henry Strakosch*: Let us suppose you were to do local business and you had no possibility of recourse to the Bank of England, would you regard your bank as being in as favourable a position without a central bank as with a central bank in India?—You mean we might take refuge with the central bank in India in the same way as we would do with the discount market in London?—

"*Sir Henry*: Exactly.

"*Mr. Nicoll*: Well, I do not see the necessity for it".

Dr. Trip: I cannot see any harm in that. If the foreign exchange banks would import money from abroad, they would not be doing any harm to the Reserve Bank.

Mr. Sarker: I will quote to you in this connection the opinion of a renowned economist. "It may well be asked whether the Reserve Bank of

India or the South African Reserve Bank will find their operations hindered by the presence in the local banking system of very large and powerful institutions, whose shareholders, direction and financial support, come from a centre altogether external to the Central Bank's own sphere. To escape a Central Bank's penal rate for rediscounts, all these banks would go to the London Market or the Bank of England."

Dr. Trip: What would be the result of that? That foreign money flows into the country. National banks in other countries can always import money from abroad. Why do you want to restrict it here? If money is imported from England the position of the Rupee will be strengthened. If the Bank of England raises its discount rate, one of their purposes in doing so is to stimulate a flow of money from abroad to the London market and the same would be the case here. If money is brought in here from England then the position of this country will be strengthened. I cannot see why the Reserve Bank should control them in these respects.

Mr. Manu Subedar: Mr. Sarker's point is that if the exchange banks do so, then the Reserve Bank will have no direct control over them. That is the whole point. If the Indian joint stock banks tried to evade the control of the Reserve Bank, then they will be penalised. What methods would you suggest for penalising a foreign bank which tries to get out of the control of the Reserve Bank?

Dr. Trip: There can be no question of difficulty in that respect. No Reserve Bank in any country can control the banks working in that country from borrowing abroad. Do you think the banks in Germany could be prohibited from borrowing money from abroad? I cannot see there is any difference in position in this respect between the German National Banks and the exchange banks in this country.

Mr. Sarker: If these exchange banks find that the Reserve Bank is working against their own vested interests, then they can have recourse to the London Money Market.

Dr. Trip: They will then have to keep very large cash balances permanently in this country in order to cover all emergency needs, since they would have no opportunity to fall back upon the Reserve Bank.

Mr. Sarker: Do you know what the cash balance of these exchange banks at present is—it is only 8 to 9 per cent.

Mr. Buckley: That is because we have made large investments in Government securities and treasury bills.

Dr. Trip: Are not the exchange banks taking money from the Imperial Bank at present?

Mr. Sarker: The Imperial Bank is another exchange bank so far as we are concerned.

Mr. Buckley: We do borrow from the Imperial Bank at present and I don't see any reason why exchange banks should not continue doing so from the Reserve Bank when it comes into being.

Mr. Sarker: You say that it is very difficult to distinguish between trade bills and finance bills. How would you improve the situation?

Dr. Trip: I do not think it will be enough if the signatures are proved to be genuine.

Mr. Sarker: If these bills are supported by railways receipts?

Dr. Trip: Then that would improve matters.

Mr. Sarker: Then with regard to the educational propaganda for the use of more bills, do you not think that it is the duty of the Reserve Bank to do so?

Dr. Trip: Certainly.

Mr. Sarker: You say that the "Reserve Bank and the commercial banks will then, in due course, have to decide whether a further step should be taken by raising the interest on cash credits in current account to a higher level than the rate for such credits for a fixed period of two months". Would it not be more helpful if this provision is made at the outset?

Dr. Trip: I am more in favour, in the first few years, to make the discount rate for first class bills lower than the cash credit rate. It would be premature to raise the interest on cash credits in current account from the beginning because the country is being financed to a great extent on the cash credit system and I do not think it would be in the interest of the country to raise in an artificial manner the present rate for these credits.

Dr. Trip: I would keep the level of the cash credit rate and lower the rate for first-class bills.

Mr. Manu Subedar: In your country, you state, rediscounting for the banks with the central institution was not a normal thing. That would be the result of the plenitude of money reflected in the lower discount rates. The necessity seldom, if ever, arises except in a crisis. But what would be your advice in India?

Dr. Trip: I should say that in the slack season the situation would probably be the same here as in my country nowadays, but in the busy season I think it probable and the proper way, that the Banks go to the Reserve Bank and rediscount the bills.

Mr. Manu Subedar: Now we come to the rediscounting rate. It has been suggested to us in the course of evidence that the rediscounting rate ought to be actually lower than the rate which the bank charges to its own constituents. This is not the practice in the large important money markets as London and Holland because the rediscount necessity does not arise except in a crisis. Have you any ideas on this subject, having regard to the peculiar situation in this country and the need of encouraging the bill habit which we have just mentioned?

Mr. Currie: You want to start a bill broker.

Mr. Manu Subedar: That is one method to increase that, but if you gave the approved banks and the approved indigenous bankers some inducement to earn a higher rate, by a cheaper discount from the Reserve Bank, you would have your bill market brought into existence much quickly.

Dr. Trip: I see your point quite well. I don't think it would be a wrong policy in this country in the beginning. I can tell you that it is done in Java not with bills but with what you would call here the cash credits. The banks generally get cheaper accommodation from the Java Bank than the ordinary customers.

Mr. Manu Subedar: That should be the proper thing; until you go to the Reserve Bank the cost of the accommodation should be the lowest, that is in normal seasons. If there is a crisis and if it is a question of regulating the market then it is different, but normally it should be at a lower rate.

Dr. Trip: I would not be inclined to say it should be the normal thing. It may be the proper thing for a Reserve Bank, especially in the first years in order to stimulate and improve the bill habit.

Chairman: In your main proposition, you say "These conclusions bring us to the conclusion that the Reserve Bank should be given the opportunity of making loans and advances on the security of movable goods, etc." Then you use the words "besides the warehouse warrants or worehouse receipts representing the same". Am I to understand that what you intend is that the security of movable goods, wares and merchandise, should be distinct from the security of the warrants and warehouse receipts?

Dr. Trip: Yes. I want to include both. I want to give the bank opportunity to give credit against goods in warehouses, against goods themselves apart from the warehouse receipts, and apart from that I want to give them the opportunity to give credit against the warehouse receipts.

Chairman: But as I understand it, the goods would be kept in warehouses in both cases. Later on you talk of warehouses. Will the goods in either case be kept at the warehouse?

Dr. Trip: It may be different of course. In any case it is done in the Dutch East Indies; the warehouse of a trader is temporarily transferred to the Reserve Bank. One key is deposited with the Bank and one remains with the owner of the goods so that the owner cannot dispose of the goods without the co-operation of the Bank. The owner of the goods gets his credit directly from the Bank, and the goods are pledged to the Bank.

Chairman: Where are they kept?

Dr. Trip: In the warehouses or godowns of the traders themselves, but we have a legal construction by which it is possible to transfer without any costs the warehouse temporarily to the Java Bank.

Mr. Buckley: I think that Dr. Trip is differentiating between goods in the owner's warehouse and goods in a public warehouse, which you have been advocating.

Dr. Trip: According to the legal construction the warehouse which is transferred to the Bank, is temporarily in the possession of the Bank. It is transferred by the owner to the bank.

Chairman: Later on Dr. Trip's proposal simply talks of warehouses built by large companies and the receipts are the basis for additional credit.

Dr. Trip: Yes, I prefer that system to the first. The first is a more crude form of giving credit but I do not see that there is any reason to exclude it. I think the best way to achieve the aim especially in this country, would be to establish a large number of warehouses owned by strong warehouse companies. Since the Reserve Bank will only be represented in some places in the country, it will be an easier way to do it through the intermediary of warehouse receipts. These could first go to the commercial banks and the commercial banks, if they want money, could use them as collateral for their borrowing from the Reserve Bank.

Chairman: In the course of various discussions, it has been suggested that the proposed clauses of that Reserve Bank Bill of 1928 might have been more elastic. At that stage you had overlooked section 18, to which attention has been drawn by Mr. Sarker.

Dr. Trip: I did not overlook it. If you read this clause you will find that its working is confined to bills or pronotes *arising out of bona fide*

commercial or trade transactions bearing two or more good signatures, etc. As a large amount of paper meeting these requirements is lacking in this country, the clause would not help us as much as I should like.

Mr. Manu Subedar: Section 18 only covers Section 2 (*a*) and (*b*) of 17.

Dr. Trip: "No, there is "notwithstanding any limitations". But the application of the clause is always bound to the conditions that there must be some paper arising out of *bona fide* commercial or trade transactions and bearing two or more good signatures. I fear that for that reason the possibility of using this clause will be rather restricted.

14th February 1931.

BANKING REGULATION.

The existing banking regulations are embodied in the Indian Joint Stock Companies Act which governs Indian joint stock companies in general and moreover, contains some special provisions with regard to banks.

In the first place, therefore, the question arises whether this system, improved and amplified as far as necessary, should be maintained or a Special Bank Act should be created. We would prefer the first solution which is simpler and can, in our opinion, meet all requirements. It should be emphasised that too many legal restrictions will hamper the useful sphere of activities of banks and may thereby make them unpopular.

In the second place, it may be pointed out that no banking regulations can prevent unsound management, losses and failures. The full responsibility ought, therefore, to be left with the Management and the Board of Directors and no measures should be taken which would weaken that responsibility.

The Articles of Association which form the constitution of a bank's business ought to be framed with great care in order to prevent as far as possible abuses and activities which are outside the scope of sound banking. It is suggested that the Registrar of Joint Stock Companies should scrutinise these Articles of Association with great care. If he finds that they do not contain satisfactory safeguards or if they allow business other than banking, he should refuse registration until they have been properly amended. The Registrar should be given the necessary powers to act accordingly. Shareholders of the existing companies also should examine their Articles of Association with a view to ensure that they are on a proper basis.

The experts place great importance on the necessity of sound auditing but they do not consider that any special form of Government inspection would serve a useful purpose or be any greater safeguard than the present system of auditing by authorised accountants. If it is felt that some of the existing firms of accountants are not sufficiently reliable to be entrusted with the work of auditing the accounts of a bank, then some form of regulation based on the Canadian System may be adopted (a paper on the Canadian System is appended). The experts feel, however, that the strengthening of the Companies Act with regard to auditing so that the auditors must make a report and be responsible for its accuracy is all that is required.

Finally, we feel that the Reserve Bank will be able through its position and aided by a Bankers' Association to so influence the policy of other banks that detailed legal restrictions will be unnecessary.

Of the suggestions made to the Central Banking Enquiry Committee two appear to call for special comment:—

(i) the question of the exchange banks, and

(ii) the definition of the word "bank" or "banker."

(i) The position of the exchange banks has already been fully discussed under Finance of Foreign trade.

(ii) The definition of the term "bank" or "banker" is well nigh impossible in India. It could not be made without excluding many firms or individuals who are at present doing a considerable portion of the financing of the country. If such a definition were made by law, it might well damage the credit of these, cause public alarm and thereby impair the trade of the nation. Such definition, therefore, should not be attempted. It is proposed, however, that the term 'Member of the Central Bankers' Association' be invented. Every bank or indigenous banker whose bills the Reserve Bank decides to accept should have the right to use this title provided they undertake to abide by the rules of the Association.

The objects of this proposal are:—

(i) To invent a new title, the prestige of which is well worth having without in any way damaging an existing institution.

(ii) To encourage indigenous bankers to adopt modern methods.

(iii) To enhance from the outset the power of the Reserve Bank and to make it impossible for business jealousy to prevent any eligible firm from attaining the right of joining in the Central Banking Association.

The other proposals which have been placed before Central Banking Enquiry Committee may be divided into five separate groups:

(i) Those which would hamper free competition and the development of banking and which ought not to be adopted.

(ii) Those which should be adopted and which necessitate amendments in the Indian Joint Stock Companies Act.

(iii) Those which are relative to the subjects that ought to be left to the control of the Board of Directors and the supervision of auditors.

(iv) Those which ought to be met by the Articles of Association and the supervision of the Registrar of Joint Stock Companies before registration.

(v) Those lying within the purview of the Reserve Bank.

We deal hereafter only with the last four groups.

Proposals which necessitate amendments in the Indian Joint Stock Companies Act.

(*a*) The Act should give the powers to the Registrar to refuse the registration of banks whose Articles of Association are not in accordance with the law.

(*b*) These Articles must prohibit other activities than banking.

(*c*) The Articles of Association shall contain provisions in conformity with the respective proposals mentioned hereafter. (See proposals which ought to be met by the Articles of Association.)

(*d*) The authorised capital of a bank should not be more than double the subscribed capital; the paid-up capital should not be less than 50 per cent. of the subscribed capital.

(*e*) A provision should be inserted with regard to auditing on lines similar to clause 5 of section 55 of the Dominion of Canada Act of 1923. "No remuneration of auditors should be valid unless fixed at a general meeting of the share-holders".

(*f*) A provision should be made by which auditors and officers of the bank would be rendered liable for omission to state material facts in their reports and in the presentation of the accounts of the bank.

(*g*) Protection of banks against frauds in connection with Trust receipts, any such fraud should be made a criminal offence.

(*h*) Articles of Association of all joint stock companies should be published in the official Gazette.

(*i*) The law should permit a temporary moratorium on the recommendation of the Reserve Bank to prevent compulsory and too rapid liquidation of a bank which is in difficulties.

(*j*) Provision for the appointment of a committee of inspection on the lines of the English Companies Act, 1929, in the case of the liquidation of a bank.

(*k*) In the case of compulsory liquidation, safeguards should be given to the creditors on the lines of the English Companies Act. Compulsory liquidation should be under the supervision of the district court. The power to order transfer of winding up proceedings from one province to another should be given to the Governor-General in Council on the recommendation of the Reserve Bank. The question of the costs of liquidation should be dealt with by the courts and delinquent directors or officers of the bank should be prosecuted at public expense.

(*l*) Directors and auditors shall be liable for negligence in discharge of their duties.

Proposals relative to subjects that ought to be left to the control of the Board of Directors and the supervision of Auditors.

(*a*) Provision for adequate reserves.

(*b*) The form of the balance sheet and profit and loss account.

(*c*) Loans to a limited company, the directors of which are also the directors of the bank or to a limited company in which any of the bank's directors are members of the managing agents' firm.

(*d*) Valuation of investments and doubtful or bad debts.

Proposals which ought to be met by the Articles of Association.

(*a*) Prohibition to advance any loan on the security of the bank's own shares.

(*b*) Limitation of loans granted to managers, staff and directors.

(*c*) Proper regulation of the allocation of profits.

(*d*) Provisions in order to enable shareholders to inspect the balance sheet and profit and loss account and to take effective action at the general meetings.

(*e*) Time within which the annual general meeting must be held after the close of the financial year.

(*f*) Voting power of managers or other officers of the bank, the period of validity of a proxy and the voting power of individual shareholders.

(*g*) Decision on the validity of every vote tendered at the polls and time within which objections to the legality of a vote should be raised.

(*h*) Restriction of the power of a bank's directors to refuse to register shares.

(*i*) Provision with regard to voluntary liquidation of the bank and the appointment of liquidators.

Proposals lying within the purview of the Reserve Bank's task.

(*a*) Monthly statements of liabilities and assets and the form of these statements.

(*b*) Advice and co-operation in cases of amalgamation or re-construction of banks which are in difficulties.

APPENDIX I.

It is suggested that to begin with Indian Banking should be organised into three voluntary associations :—

1. The Indian Joint Stock Banks' Association,
2. The Exchange Banks' Association, and
3. The Indigenous Bankers' Association.

Each of these Associations should endeavour to form rules for their respective members so as to make their practice more efficient and as far as possible identical within their own Association.

As an apex of these there should be the Central Bankers' Association, the members of this would be all the members of the other three who had developed sufficiently for the Reserve Bank to feel justified in discounting their bills. The Committee of this Association would not only make rules for its own members but would also give advice to the subsidiary Associations in every way it thought useful. It is to be hoped that through this co-ordinating influence it may eventually be possible to merge all the Associations into the Central Banking Association.

APPENDIX II.

Audit Regulation in Canada.

1. *Those qualified to audit.*—The affairs of all Canadian banks must be audited by two persons residing in Canada, each one of whom must have been an accountant for at least six years preceding the taking up of his appointment and he must also be a member in good standing of an institute or association of accountants incorporated under authority of the legislature of any province of Canada.

2. *Lists of Auditors.*—A list must be furnished to the Minister of Finance and also to the Canadian Bankers' Association by each such incorporated institution of accountants of all members of their corporation in good standing whose names are entitled to be included therein as determined by the provisions of the above section and such list must be certified under their corporate seals.

3. *Selection of Auditors.*—The Minister of Finance may select from such list the persons, any one of whom shall be eligible to be appointed an auditor of a bank, but if the Minister does not make a selection, all the persons on the list shall be eligible.

4. *Publication of List.*—The Minister shall cause to be inserted in the Canada Gazette a public notice giving the names of persons so selected.

5. *Appointment of Auditors.*—Shareholders shall at each annual general meeting appoint two persons not members of the same firm whose names are included in the last published list, to audit the affairs of the bank, but if the same two persons or members respectively of the same two firms have been appointed for two years in succession, one such person or one member of one such firm shall not be again appointed as auditor during the next two years.

6. *Remuneration of Auditors.*—The remuneration of auditors is fixed by the shareholders at the time of their appointment and is paid by the bank.

7. *Power of Auditors.*—Every auditor shall have a right of access to the books and accounts, cash, securities, documents, etc., and shall be entitled to acquire from the directors and officers of the bank such information and explanation as may be deemed necessary.

8. *Scope of audit.*—The Minister may, from time to time, require the auditors of a bank to report to him upon the adequacy of the procedure adopted by the bank for the safety of its creditors and shareholders and as to the sufficiency of their own procedure in auditing the affairs of the bank, and the Minister at his discretion may enlarge or extend the scope of the audit.

9. *Duty with respect to Directors.*—It shall be the duty of the auditors to report individually or jointly to the general manager and to the directors in writing, any transactions or conditions effecting the well being of the bank which may not be satisfactory to them. They shall report specifically to the general manager and directors upon any loans exceeding 1 per cent. of the paid-up capital which in their judgment are inadequately secured. This provision is not to be construed to relieve any director from the proper discharge of his duties. The report must be incorporated in the minutes of the directors next meeting.

10. *Report by Auditors.*—The auditors shall make a report to the shareholders on the statement of the affairs of the bank to be submitted by the directors at the annual general meeting and this report shall state (*a*) whether they have obtained all the explanations they require, (*b*) whether in their opinion, the transactions of the bank have been within the powers of the bank, (*c*) whether in their opinion, the statement referred to in the report discloses the true condition of the bank, (*d*) whether the statement is as shown by the books of the bank.

11. *Auditors' Report.*—The auditors' report must be attached to the statement submitted by the directors to the shareholders and must be read before the shareholders in the annual general meeting.

12. *Employment by Bank.*—Any auditor of a bank during his term of service or the firm to which he belongs may not undertake any employment for or at the instance of such bank.

13. *Eligibility.*—No person shall be appointed an auditor of a bank if he or any member of his firm is a director or officer of such bank.

14. *Reports to Ministers.*—A copy of all reports made by the auditors to the general manager and directors shall be transmitted to the Minister by the auditors at the same time as transmitted to the general manager and directors.

The Canadian Bankers' Association.

(See Section 124 of Bank Act.)

The principal functions of the Association include:—

1. Supervision of Chartered Banks' note circulation.
2. Custody and management of Central Gold reserves.
3. Establishment and control of Bankers' Clearing Houses.
4. Promotion generally of interests and efficiency of banks and bank officers. Education and training of officers.
5. The appointment of a Curator to any bank that has failed pending the nomination of a Liquidator. No by-law, rule or regulation of effect until approved of by Treasury Board.

Chairman: (Mr. Buckley). Gentlemen, before commencing this morning's proceedings I would like to say that having attended all the meetings of this Central Committee I regret to say this is the first time that we have been without the guidance of either our Chairman or the Vice-Chairman.

Mr. Sarker: Mr. Cassels, I find that it is your considered opinion that the present Companies Act dealing with workings of the banks should be improved and amplified as far as necessary and that there is no necessary for a special Bank Act.

Mr. Cassels: If you would kindly address Mr. Currie this morning, he has the answers.

Mr. Sarker: In coming to that conclusion, Mr. Currie, have you considered the difference between the position of ordinary joint stock companies and banks? If a joint stock company fails, it is a question of loss to the shareholders. But if a bank fails, depositors' monies are lost. In the case of joint stock banks continued confidence of the general public is necessary even after starting the bank, whereas in the case of ordinary industrial joint stock companies this continued confidence is not necessary to such an extent. After considering all these things you have come to the conclusion that a separate Banking Act is not necessary?

Mr. Currie: I am still of the opinion that legal restrictions are not likely to help very much in that respect. I do not think it is possible to draw up a great many special legal restrictions for a bank which would prevent it from doing its proper work. I think the question of public confidence is much better met by sound management than by trying to bind a bank by legal restrictions which can never be framed so that they cannot be avoided and thereby bring the whole system of banking into disrepute. If you bring in an Act which lays down all sorts of restrictions on banks, then the public will say—this is splendid, now no bank will ever fail again. If on top of that the directors manage to get round the Act and the bank fails, then the public will lose confidence and say if this bank failed, any other bank can fail also.

Mr. Sarker: You know that there is an Insurance Act in the country. For the creation of public confidence this sort of Act is necessary.

Mr. Currie: Insurance is perhaps rather different, but it is my opinion anyway that special Acts are not of very much use, anyhow as regards banking. In Canada the position is rather different. You see, in Canada there are only 11 banks. All those banks have the right of issuing their own notes so that in that respect they are acting as 11 Reserve Banks for the country, and any bank which has that privilege must have certain regulations in order to maintain the position of the currency. Granted that they must have an Act. There are only these 11 banks, all of them are doing very much the same business so that it has been possible to put into an Act what would normally be the rules of their Banking Association. That may work all right in Canada but in India where you have a great many banks of an entirely different nature, private banks, indigenous bankers, etc., you could not produce an Act which would cover the whole lot.

Mr. Sarker: I do not like the Act relating to Canada. I do not approve of the lines of the Canadian Act because in all respects there is too much detail—it lays down how to fill up a casual vacancy on the Board of Directors, how the voting should be done, etc. What we want is not on the lines of these details. These things could be left to the companies, but there are certain restrictions which are necessary, for instance, publication of accounts, keeping proper reserves, etc. Until all these provisions are incorporated in an Act, whether it is a Companies Act or private banking Act, how can these things be enforced?

Mr. Currie: Well, we have made certain provisions which, we think, would be useful if inserted in the Companies Act. Other provisions must vary according to the business which the bank is doing and it would be very harmful for some of them if an Act was drawn up which please some of the banks in a particular case. Therefore, we think, it would be better if those particular cases were met by the Articles of Association and we propose that legal powers should be given to the Registrar to see that provisions which he thinks are suitable are made to cover those points. But drawing up a law would be a very difficult thing and probably would be very harmful to some of the banks concerned so that we think it would be better to give powers to the Registrar to see that proper regulations are in the Articles of Association, without definitely stating them in law.

Dr. Trip: The present Companies Act contains provisions with regard to banks. It is only an extension of the present situation.

Mr. Sarker. I cannot see how a measure, say, for the purpose of audit of accounts, will weaken the responsibility of directors.

Mr. Currie: It refers to regulation of reserves and things like that. If you make a law that so much should be provided for bad debts, shareholders will say, 'You have done what the law requires and now we want the rest for dividend.' Thus regulation will tend to take the responsibility off the shoulders of directors and auditors.

Mr. Buckley: But not if you lay down that a minimum amount should be put to reserve.

Mr. Currie: The minimum tends to become the maximum if you put that in law.

Dr. Trip: In my country for instance it is always in the Articles of Association.

Mr. Sarker: Articles must be framed with great care, but there must be a basis on which they should be framed. If there is no basis under the law drafting them each company might do it according to its own choice. In order that the articles might be scientific there must be some basis.

Dr. Trip: I cannot see how you can make provisions by law in regard to the amount for instance to be put to reserve. You can put a minimum but that has no importance because it must be considered year by year by the management and the auditors.

Mr. Sarker: There must be some provision that auditors should look to, say, provision for bad debts. But all legal provisions do not weaken responsibility.

Mr. Currie: All regulation does not, but regulation tends to stereotype.

Mr. Sarker: Will you give absolute discretion to the Registrar of Joint Stock Companies to accept or refuse the Articles of Association of any banking firm or will you give him some basis?

Mr. Currie: We later on give some basis.

Mr. Sarker: For that purpose special legislation is necessary. Banking provisions will not be applicable to all joint stock companies. If I start an industrial company, I cannot provide in the articles of association that the company will not do any other trading.

Mr. Currie: There may be a special article for that.

Mr. Sarker: You will provide some basis according to which he will scrutinize the articles and accept or refuse them?

Mr. Currie: Yes.

Mr. Sarker: I do not understand the last sentence of paragraph 4, page 1.

Mr. Currie: We consider that shareholders should read the articles of association as they are, and if they find that they do not cover a great many of these points, they should take steps at a general meeting to propose that they should be included in the articles.

Mr. Sarker: If they do not care to do so, how can you compel them?

Mr. Currie: I do not think you can in the case of an existing company.

Mr. Sarker: If these requirements are provided for in a new modified Companies Act or Banking Act, the existing companies will be bound to carry them out?

Mr. Currie: I think the very fact that a law has been passed is sufficient and directors will try to comply with it.

Mr. Sarker: Will it induce shareholders?

Mr. Buckley: Shareholders in this country do not take a great deal of interest in the articles of association.

Mr. Lamond: You have got a Shareholders Association.

Mr. Buckley: We have one in Calcutta.

Mr. Sarker: There is also in Bombay a Shareholders Association.

Mr. Buckley: I do not think there would be any objection to putting a clause in the Act that existing companies must bring their articles of association into line. Otherwise the directors of the existing companies would do nothing.

Mr. Sarker: How do you feel that the Reserve Bank or a bankers' association will be able to influence the policy of individual banks?

Mr. Currie: The Reserve Bank will have the power to accept the paper or bill of a bank for rediscount, and if there is an association to make rules, these rules will bring about all the minor improvements which are wanted without making laws for them.

Mr. Sarker: I do not know whether all the banks can be linked up with the Reserve Bank. How will the Reserve Bank be able to improve business methods if there is no legal provisions?

Mr. Currie: In Appendix I, we suggest three bankers' associations one of which is the Indigenous Bankers Association, and we propose that the Reserve Bank should work through this Association.

Mr. Sarker: Will that be a voluntary association?

Mr. Currie: To begin with it will be voluntary.

Mr. Sarker: If they do not form themselves into an association, how can they be compelled to do it?

Mr. Currie: Then you might have to bring some legal obligation in. But I think it would be better if a thing started voluntarily. An Association formed under compulsion becomes unpopular and will not, therefore, be of much use. If we start a voluntary association and the indigenous banker sees that he can get better facilities by joining it, I think you will find that he will join it.

Dr. Trip: We are under the impression that compulsory measures in business do more harm than good. It is better to convince people that it is to their interest to improve matters than to compel them by law. It is our experience that people are inclined from the beginning to go against compulsory measures. In the U. S. A., they have a good many legal provisions with regard to banking, but these have not prevented failures and difficulties in the banking position there. As Dr. Jeidels said, there are some even in the U. S. A., who are of opinion that these failures and difficulties are the result to a certain extent of legal provisions.

Mr. Sarker: Our experience here is this. We started an Insurance Companies Association 4 or 5 years ago. Since then there have been started four associations. These are voluntary associations. If there was a law that there should be one association and it should have certain advantages, then matters would have been better than they are now.

Dr. Trip: At the present moment indigenous bankers are not bankers in the strict sense of the word. How could you compel them to become bankers and give up other business activities which they carry on now?

Mr. Sarker: If there is a provision that an Indigenous Bankers Association should be instituted in every province and that bankers who are members of this association will have certain facilities from the Reserve Bank, then the association will prosper, otherwise not.

Dr. Trip: Do you intend that the Association should prohibit those indigenous bankers who are not members of it to do any banking business in the country?

Mr. Sarker: No. The indigenous banker who is not a member of the association will not get certain privileges from the Reserve Bank.

Dr. Trip: Then why not leave it to the Reserve Bank to take action?

Mr. Sarker: If there is no legal provision, there will be many associations and there will be competition between themselves.

Dr. Trip: You have an association for the indigenous bankers in Bombay. I got the impression from what I heard from Sir Purshotamdas that the indigenous bankers, as far as he knew them, would be prepared

to follow these lines. If you read the provincial reports, you find the position of the indigenous bankers is that with the competition of joint stock banks on the one hand and that of the co-operative movement on the other, they should be prepared to do likewise. Although on principle we have no great objection against the institution by law of these associations we are of opinion that you can, through the influence of the Reserve Bank and propaganda, make the indigenous bankers see their own interest in becoming members of the Indigenous Bankers Association. Compulsory measures by law are always to a certain extent hateful things. This, in any case, is our experience in our country.

Mr. Sarker: In India the situation is quite different. Is the Canadian Association a voluntarily formed one?

Mr. Cassels: It was formed by all banks

Mr. Sarker: It has got statutory recognition. Even the starting of these associations must receive statutory recognition as in Canada. That is there should be an Act incorporating the Bankers Association. In Canada they are not an entirely voluntary agency?

Mr. Cassels: In Canada the reason for incorporation of the Association was that all banks wanted that it should have a legal status.

Mr. Buckley: In Canada there are only 11 banks. It was quite easy for them to form themselves into an association.

Mr. Cassels: We suggest that different forms of banking should have their own associations.

Mr. Sarker: There also you will find it difficult. Exchange banks not only do exchange business but also a lot of commercial business. Indian bankers may also have exchange business.

Mr. Currie: Eventually they will all be merged into an association. The Indian Bankers Association may decide to issue monthly statements, balance sheets, and so on. It would not be possible for exchange banks to issue similar statements because they would not be able to get their figures from London or New York. There must be some differences which will have to be met, and we thought that for the time being it might be better to have separate associations.

Mr. Buckley: So far as exchange banks are concerned the figures that they would have to supply are available in India, and no reference to London or New York would be necessary. My own bank in Calcutta or in Bombay can collect and submit them within a fortnight for the whole of India.

Mr. Currie: I do not see any objection to there being one association.

Mr. Manu Subedar: They will not supply their figures unless there is some kind of obligation to do so. The Association must have foundation in law somewhere. Take the British Medical Council. If I am struck off their rolls, I cannot practise as a doctor.

Mr. Sarker: What I am driving at is this: assuming so many conditions will have to be provided for, whether it would not be better to have a new measure.

Mr. Buckley: It need not be as elaborate as the Canadian Bank Act.

Mr. Manu Subedar: It may have a minimum amount of regulation, but it will be a separate law, easy, intelligible.

Mr. Buckley: Instead of simply revising the Indian Companies Act, the provisions in the Act relating to banks could be taken out of it, and other provisions considered necessary added to them, and the whole formed into a Bank Act.

Mr. Currie: If you do not think that the requirements will be met by a few additions to the Indian Companies Act, I do not think there can be very great objection on principle to having them incorporated in a special Act.

Mr. Ramdas Pantulu: Can we have a Bank Act without defining a bank? I think, and the experts have also shown, that considerable difficulty will be experienced in preparing a definition of a bank.

Mr. Sarker: The same difficulty will arise in the case of Indian Companies Act also. When you say that these provisions will apply to a bank, you will have to define a bank.

Mr. Ramdas Pantulu: We know what banking business is. You can have a provision in the Indian Companies Act relating to companies doing banking business because any company can do banking business. But if you have a separate Bank Act, you will certainly have to define a bank.

Dr. Trip: How are you going to define what is now called the indigenous banker? If you extend your provisions to indigenous bankers, you will be doing harm to the country.

Mr. Sarker: My idea is regulation of joint stock banks and not indigenous bankers.

Dr. Trip: Then I think it is only a question of procedure.

Mr. Manu Subedar: You are suggesting provisions in regard to registration, working, audit, directors, liquidation, etc. These are all provisions which will not be applicable to other joint stock companies. What Mr. Sarker says is whether it would not be more convenient, simple, intelligible to have the regulations in one Act. It need not be very elaborate. I understand you are against too many regulations. A bank manager or director will not then have to wade through sub-sections of the Indian Companies Act.

Dr. Trip: It is a question of procedure. You may have a chapter in the Indian Companies Act regarding banks. But whether you will prefer to have a chapter in the Act or a separate Act I think we have no objection.

Mr. Sarker: You have an Act for joint stock companies although the business they do is being done by traders. You have no regulations for the traders.

Mr. Manu Subedar: Their regulations would more suitably come through their own Association and through the co-operation of the Reserve Bank. They would have to observe certain rules, but with regard to joint stock

companies particularly, I wonder if you recollect what Dr. Jeidels said about the advertisement of a bank. That sort of bank would not be a member of any Association, but to the public would still remain as a bank and go on doing its harmful business. There would be no method of preventing them unless there was a specific law which laid down certain requirements which such companies would have to observe. There may of course, be weak or bad business, but not this duping of the public.

Mr. Currie: You do not need a specific Bank Act in order to bring that about.

Mr. Manu Subedar: You have suggested a good many points over which the feeling in this country is very definite. Some of us feel that it would be better if all these points, instead of being tacked on to the Indian Joint Stock Companies Act, were put in a simple and intelligent form. The duties are now laid on the Registrar who is a very over-worked official. In the U. P. he is doing not only company registration business, but has several other important functions. In Bombay he is the Official Trustee. Sometimes the Director of Industries is in that position as in Bihar. It is a matter the details of which are perhaps not known to you, but it would be better if the obligations to see that the Act is properly observed were laid on a specific authority. I myself should think that that authority should work in co-operation with the Board of the Reserve Bank, but whether that would not be a better system than merely leaving it loose in the Companies Act is a matter of procedure about which you have no objection?

Dr. Trip: No.

Mr. Ramdas Pantulu: I am not sure I followed Mr. Sarker about adding a chapter to the Indian Companies Act. You agree that a chapter can relate only to banks or companies registered in India under the Act as joint stock companies. Therefore, you exclude from the scope of that chapter both indigenous bankers who are not joint stock bankers as well as all bankers whose head offices are in foreign countries and who are not registered in India. If you have a Bank Act, it must cover not merely a part of the Indian Companies Act as it is called, but it must be an Act which will relate to all banks in this country. I do not see how you can by regulations incorporated into a chapter of the Indian Companies Act regulate the conduct of banks whose head offices are not in India and who are not registered in India.

Mr. Sarker: The foreign banks can be brought in by making suitable amendments in the Companies Act, so long as they do business in India, but I agree that the indigenous bankers cannot be brought in.

Mr. Ramdas Pantulu: You think that the Indian Legislature can legislate an Indian Companies Act for the conduct of banking companies whose head offices are elsewhere than in India and who are not registered in India?

Mr. Sarker: So far as their business in India is concerned, they can be controlled by provisions in the Indian Companies Act.

Mr. Buckley: The English Companies Act, 1929, does apply to companies incorporated outside England.

Mr. Ramdas Pantulu: That is with regard to certain returns.

Mr. Buckley: It seems to me that there is no reason why the Indian Companies Act or the Bank Act should not also apply to companies incorporated outside India. We were just now talking about having a small Bank Act, but joint stock banks in this country are at present governed by the Indian Companies Act in regard to various matters such as constitution and incorporation, articles of association, share capital, maintenance of registers of members, management and administration, meetings and proceedings, qualification, appointment and liability of directors, restrictions on commencement of business, debentures and floating charges, maintenance of books and accounts, etc., etc. These provisions refer not only to joint stock companies, but also to banks. So that, if you are going to have a separate Act, all these would be removed from the Indian Companies Act and inserted in the Bank Act. Do you not think however your point would be met if we had a separate chapter in the Indian Companies Act?

Dr. Trip: I think it would be the most practical procedure to make one chapter containing special provisions with regard to banks.

Ch. Mukhtar Singh: It is a part and parcel of the same Act. I feel that when there is an Act which consists of different chapters, a number of provisions not contained in one particular chapter will also apply to that chapter.

Mr. Buckley: Could not that be overcome by reference to sections?

Mr. Manu Subedar: Apart from what Mr. Mukhtar Singh says, the interpretation of all the sections would still remain except where they are over-ridden by supplementary instructions. Again the whole body of case law will remain. If there is a case decision on any ordinary joint stock company, in regard to the interpretation of certain sections, that case decision will apply to banks as well as to companies. We would probably come across one or two cases where the courts, for purposes of practical exigencies, have laid down certain rules for ordinary joint stock business, but for banks whose business is of a different class from the ordinary joint stock company, whose losses are to be borne in a larger measure by creditors than in the case of an ordinary joint stock company, the case law may differ. From every point of view and as a matter of practical convenience, I think a separate Bank Act would be much more suitable.

Mr. Sarker: Your difficulty can be got over by providing in the Bank Act, so far as constitution, capital, etc., are concerned, that it will be governed by the Indian Companies Act as in the case of the Indian Insurance Act.

Mr. Ramdas Pantulu: As Mr. Currie has put it, it is a question of procedure. Whether you have a separate Act or a separate chapter it would not matter, but many parts of the Act would be applicable, because the bank is also a joint stock company. Therefore, the general provisions of the Indian Companies Act ought to apply to Indian banks, but you can say that certain specified sections would not apply to them.

Mr. Devadhar: If we take away the provisions out of the present Companies Act and form a separate Bank Act, would it cause much confusion?

Mr. Currie: I do not think so, it will mean copying out nearly the whole of the Joint Stock Companies Act and it seems to me cumbrous procedure. It seems very much simpler to add a chapter with special provisions.

Mr. Devadhar: Is this difficulty got over in other countries by adding a chapter to the Companies Act?

Mr. Currie: Yes.

Mr. Manu Subedar: You have read the sub-committee's report on the Regulation of Banking. There were many points raised in it which you have analysed into five sections. The first section is referred to by you as "those which would hamper free competition and the development of banking and which ought not to be adopted." With regard to the points which you have adopted, there would not be much controversy, but with regard to those you have omitted, could you give us the reason why in your opinion they would hamper free competition? These views were placed before us by responsible witnesses from various quarters.

Mr. Currie: I took from the report all those suggestions which I thought desirable or on which some action ought to be taken.

Mr. Manu Subedar: We want to know a little more of the grounds on which you have omitted those which you have actually omitted.

Mr. Currie: Can you suggest any point I have left out?

Mr. Buckley: Could you give Mr. Currie the main points of omission?

Mr. Manu Subedar: I cannot run them over in my mind. I should like to have it from him why he does not want the provisions which he has omitted.

Dr. Trip: A very large number of proposals were made to the Committee and we have read as carefully as possible the report of the sub-committee. We tried to sift them into five groups. It would be very difficult for us to deal with them point by point.

Mr. Manu Subedar: If you prefer it, Secretary will make out a list of the points which you have omitted from your recommendations and then you could say whether to all of them your clause (i) would apply, *i.e.*, those which would hamper free competition.

Mr. Currie: I have no objection to the procedure you propose, but I thought the better way would be for the members of the Committee to bring before us those points in which they are interested and which we have omitted.

Mr. Buckley: I suggest that the Secretary be asked to draw up a list of those points which come under heading (i) which have been omitted from the recommendations and then we can take up the discussion.

Mr. Manu Subedar: It is a postulate that there should be free and full competition and free growth. On the other hand, all regulation is an evil. I take it from you, and I also share that view, but it is a necessary evil and if they were not necessary, various countries in the world would not have made laws or regulations. They are just as binding and effective. Some kind of organisation is necessary. The only point to decide in India is to what extent we should go. In India there have been a large number of weak banks which have run badly and failed and the reports of various liquidators indicate the directions and methods by which fraud or mismanagement takes place. I hope you have read some of these reports. It is not possible to provide altogether against fraud and mismanagement. Human ingenuity will conceive of various means of providing against it, but publicity, the responsibility of the shareholders, proper fixing of

the responsibility of the directors, etc., are some. For example, a director could be made personally liable for the losses incurred by the bank. He is liable under the Companies Act at present, but whereas that provision may be perfectly in order with regard to joint stock companies, it is rather loose with regard to banks. I know of banking companies which went into liquidation in which the directors paid nothing to the creditors. I am only indicating generally some of the methods by which we could reduce the amount of fraud or mismanagement as much as possible. You would have no objection to these ideas?

Dr. Trip: It strikes me from a perusal of the various cases of fraud that have taken place in this country that most of them are already provided for in the Act itself. Action is taken by the management, by the Board of Directors, and even by the auditors contrary to the provisions in the Act, which proves that legislation cannot be effective.

Mr. Manu Subedar: You know that there is some difference between the certificate of the auditor in this country and the certificate which auditors are required to give in other countries?

Dr. Trip: We have made proposals in regard to this matter and we have taken those points which we consider reasonable and which we think would do some good to the country.

Mr. Manu Subedar: I am not arguing beyond the points you have mentioned. I am saying that every country must frame its own regulation according to the local situation of which, in India, you will agree, that you, gentlemen, have a somewhat limited acquaintance, whereas some of us have been through it. While granting the general principle that the smaller the regulation the better, if a regulation forces proper responsibility on the directors, the managers and the auditors of a banking company, but if the provisions of the joint stock bank are not clear on this point, you would have no objection to the regulation being devised with this purpose in view, even if you think that ultimately they would fail, because those who mismanage are cleverer than the Legislature?

Dr. Trip: It is generally the case not in this country alone, but practically in all countries.

Mr. Manu Subedar: Still the Legislature should, whenever a flagrant position is disclosed, try and adjust its requirements and obligations as much as possible. That is the foundation of all law for all subjects. Would you disagree with this suggestion?

Dr. Trip: No, this is one of the subjects which is perhaps most difficult for us to give an opinion on, because as you rightly observed, we are not in a position to know the whole situation with regard to banking regulations in this country. We can only speak from our experience: we have no confidence in the influence of legal provisions. Our experience is that such provisions generally do more harm than good. But we are quite prepared to discuss any suggestion you want to make on any of the points that we have omitted.

Mr. Manu Subedar: You have yourself emphasized in various places that conditions in India differ from conditions abroad. Amongst the conditions which differ are the ignorance of the mass of the people, the joint stock company organization itself which is a foreign method and the joint stock bank itself which is a foreign institution planted on the

soil of India; and there may be, in more directions than one, loopholes devised by those who commit frauds which may be known to us but with which you may not be as familiar as some of us. I say this with all respect and I hope you will not take it amiss.

Dr. Trip: I agree.

Dr. Hyder: You say you cannot define a bank, but can you not lay down the business that a bank should transact? Even when this Banking Committee has been sitting, banks have been started under the articles of association of which they can do any business under the sun. Therefore, it appears to me that even if it is difficult to define a joint stock bank, an indigenous bank and other banks separately, it might on the whole be better to enumerate their different banking businesses.

Dr. Trip: I do not see how you can ever specify the business of a bank. You may probably be able to say what business a bank should normally transact, but you cannot define all the business which a bank ought to do. Supposing a banker has made a large loan to, say, a cotton mill on the security of the cotton, if the mill fails, it will have to sell the cotton so you cannot specifically say that that banker would deal in cotton.

Mr. Manu Subedar: Is not that dealing with the assets which come into the bank's hands? In the Imperial Bank Act there is a provision by which you may not deal in property, but you are entitled to deal in property which falls into your hands in due course. Some provision may therefore, be made and in doubtful cases there should be some form of interpretation.

Dr. Trip: I think there would be difficulty even there.

Mr. Buckley: In regard to the proposals which necessitate amendments in the Indian Joint Stock Companies Act, you say that "the Articles of Association must prohibit other activities than banking".

Dr. Trip: That is more or less a guidance to the Registrar whether he should allow the company to be registered under the Articles of Association.

Mr. Manu Subedar: The Registrar is a human being and you will have to provide him with something to which he will look when he is in doubt, so that some kind of provision would have to be necessary and the amount of discretion would have to be limited?

Dr. Trip: Yes.

Dr. Hyder: Coming to the Articles of Association, you say that these should be scrutinised with great care, etc. Later on you say that these Articles should be in accordance with law and the Articles of Association of such companies as are not in accordance with law should not be recognised by the Registrar. I suppose you refer to the Indian Companies Act?

Mr. Currie: Yes.

Dr. Trip: Of course there may be provisions in other Acts which have to be taken into consideration as well. In my country, for instance, if the Registrar finds a provision in the Articles of Association contrary to any provision in the Act or law, he refuses registration.

Dr. Hyder: There is one difficulty here: many of these companies draw up their Articles of Association and reserve to themselves certain rights. They want to get out of the law, and the law, I think, is powerless in this regard.

Dr. Trip: Such companies should never be registered.

Mr. Manu Subedar: May I suggest that you gentlemen have made a mistake in not distinguishing between the Memorandum of Association and the Articles of Association? The position is that the Memorandum of Association can never be changed without court's sanction but the articles of association can be changed by a majority decision of the shareholders, say, by a two-thirds majority or so, as stipulated.

Dr. Trip: The position in my country is that the articles of association are a permanent thing and cannot be easily changed.

Mr. Manu Subedar: In order to avoid all possible expenses, the trouble and the delay, generally very wide powers are given in the Memorandum of Association. You do not really mean that these wide powers should not be there in the case of a banking company.

Dr. Trip: That is true.

Mr. Sarker: The articles of association must conform to the Indian Companies Act, but up-to-date no distinction has been made between joint stock banks and other joint stock companies in this respect.

Mr. Manu Subedar: There is nothing in the present law to prohibit a bookseller from setting up banking in this country.

Dr. Hyder: Do you not think that for the guidance of the Registrar of Joint Stock Companies, apart from other factors, the articles of association must be standardised?

Dr. Trip: There may be danger in so doing. We cannot make it uniform. The articles of an Indian exchange bank cannot be the same as that of an Indian joint stock bank doing ordinary commercial business. I am very much afraid of making the legislation too strict in these matters.

Dr. Hyder: My point is that money is withdrawn by people and it is squandered and then comes the liquidation. There ought to be certain standard proofs to guide the Registrar, the shareholders and the company as a whole so that the company does not get better of the investor or *vice-versa*.

Dr. Trip: I do not know the special circumstances of this country but my impression is that it would be better to follow general lines.

Dr. Hyder: The difficulty to my mind is this that banks are started which combine banking with other activities. It is not the indigenous banker alone who is doing this and that is why we feel that something ought to be done in this respect to prevent such different activities.

Dr. Trip: As I have already said it is not possible to have one standard form of articles of association for an ordinary commercial bank, an exchange bank and an industrial corporation.

Dr. Hyder: Supposing we got over that difficulty by dividing the banks into different classes as are required, such as exchange banks, ordinary joint stock banks, industrial banks, co-operative banks, indigenous banks and so on, do you think that would help in the development of sound banking in this country?

Dr. Trip: I doubt whether such a scheme would work satisfactorily and whether such specifications could be made at all.

Dr. Hyder: You say that the shareholders of existing companies should examine the articles of association. Do shareholders in any part of the world take an active interest in the work of banks of which they are shareholders?

Dr. Trip: No, not directly. But the financial press generally takes a good deal of interest in these matters and the shareholders get to know about the working through such journals.

Dr. Hyder: Experience in our country is that the shareholders take little interest in the affairs of the bank except to hear whether it is 5 per cent. or 10 per cent. dividend that they have to get.

Dr. Trip: That is quite true. Shareholders begin to take interest in a concern only when the business has gone wrong. That is the case in all countries. But when a new company is started and when shares are issued and if the articles of association were considered unfavourable by the financial press, then the issue of the shares would prove a failure.

Dr. Hyder: We have in this country unfortunately no financial press —not even financial supplements to newspapers.

Dr. Hyder: You say that the authorised capital of a bank should not be more than double the subscribed capital and the paid-up capital should not be less than 50 per cent of the subscribed captial. Supposing the paid-up capital of a bank is only Rs. 2,000, you would not advocate the starting of such banks in the country I want your opinion whether it would be advisable to have certain minimum limits fixed with a view to check the growth of mushroom banks.

Mr. Currie: Is it not difficult to have a limit placed like that?

Dr. Hyder: I feel that the whole development of banking in this country is in the direction of formation of big banks.

Mr. Currie: If for instance a village *bania* converts his business into a joint stock concern on modern lines with a small capital, would that capital not be large enough?

Dr. Hyder: I have not quite fully considered that point whether the *bania* would try to convert his business into a joint stock concern.

Mr. Ramdas Pantulu: The witnesses who appeared before this Committee were almost unanimous in their demand that some limits should be placed.

Mr. Currie: I have no particular objection to have some limit placed. My only point is that it will also retard the development of healthy banking to some extent if we made the limit too high.

Mr. Devadhar: Now that you have known a good deal of the bulk of the banking business in this country, what limit with a view to prevent frauds would you suggest that banks should possess as initial paid-up capital to begin business?

Mr. Currie: Perhaps a very small capital would be enough for a bank to do business in a small provincial town but that may not be the case in a big city like Calcutta.

Mr. Devadhar: Would you, therefore, specify any limits for rural and urban areas separately or would you leave it to the members concerned to make their own decision in the matter?

Mr. Currie: I am very much in favour of the latter suggestion.

Mr. Buckley: There has been quite a large growth of mushroom banking organisations in this country. One is called the Midland Bank and there are others who call themselves by big names. These banks start their business with attractive prospectuses and go to allotment with a very small working capital. I have amongst my papers the details of a bank which opened in Clive Street, in Calcutta, with the magnificent amount of Rs. 533 as paid-up capital after payment of initial floatation and other expenses. What I, therefore, suggest is that while it may be enough to have 10 per cent. of the subscribed capital to begin business in a small mofussil town, it would be hopelessly inadequate in large cities.

Mr. Sarker: From 1907 to 1911 there was mushroom growth of Indian insurance companies. As a matter of fact in Bengal and Madras almost every district town had its own insurance companies. Then as soon as the Insurance Act was passed demanding a security of Rs. 25,000 as the minimum, these mushroom organisations died out and the Indian business in insurance has now been put on sound lines.

Mr. Manu Subedar: The Company Law at present requires that one-tenth of the subscribed capital is to be paid-up. Do you not consider that inadequate at least so far as banking institutions are concerned?

Mr. Currie: That is so. Some bigger proportion must be placed.

Mr. Devadhar: You have suggested the 50 per cent. limit.

Dr. Trip: That is so.

Dr. Hyder: You say "In the second place, it may be pointed out that no banking regulations can prevent unsound management, losses and failures". Your point, therefore, is that on sound management alone depends the success of a bank.

Dr. Trip: Certainly.

Dr. Hyder: May I know how you in England pick up members for the Board of Management of a concern. Though not to a large extent but to some extent, I understand, people in England show a partiality towards some of our retired Governors and high officials with flowing titles behind them. Sound banking depends much on the General Manager. I do not know what you have to suggest to us so that we get the proper type of men.

Mr. Currie: When a company is started in England, the first thing that people would look at is whether it is a respectable concern. In this country I understand most business is done through the Managing Agency system.

Dr. Hyder: Of course, the people know that it is a respectable firm but the complaint which I was coming to was this, they say that on the boards of management, specially in Bombay and Calcutta, they get as directors either retired politicians or very old gentlemen and they do not give younger fellows a chance.

Mr. Currie: I think the experience of old men is probably very useful.

Dr. Hyder: That is so. They have a wide knowledge of affairs and men of the world. That is why they are there. But here I do not know how we are going to secure an efficient Board of Directors because it seems to me that it is a matter of getting the man and of not making too many rules and regulations.

Mr. Cassels: A good name which everyone knows gives confidence. But they try to get many of their directors from what they call business men, men high in the commercial world who will attract business, who have wide affiliations and will bring the bank business. That is a very important point.

Mr. Manu Subedar: Do you want managing agents as directors for banks?

Mr. Currie: No.

Mr. Currie: Then you must look at the name of the Chairman and of the broker who is going to make the issue.

Mr. Cassels: You should also see the name of the auditors.

Mr. Manu Subedar: You see the whole position. But there are defects in our investment market. We do not have institutions parallel to what you have.

Mr. Currie: Yes, of course, we realise that.

Dr. Hyder: You say on page 3, proposal (*h*), Articles of Association of all joint stock companies should be published in the official Gazette. That is to say after approval?

Mr. Currie: Yes.

Dr. Hyder: You think these should be published in the press also?

Mr. Currie: I think so, but I would not like to lay it down that in this country new banks must go to the expense of publishing in the press.

Dr. Hyder: On page 4 you say directors and auditors shall be liable for negligency in discharge of their duties. Of course, if the duties are definitely clear, they will be liable for failing to discharge them, but when there is no clear cut scheme of duties laid down, I am afraid this negligency would not come in.

Mr. Currie: That is a question for a court to decide.

Dr. Hyder: Further on you say loans to a limited company, the directors of which are also the directors of the bank.

Mr. Currie: That should be "A director of which is also a director of the bank".

Dr. Hyder: Take the case of a man who is a director of a limited company and the same man is a director of a bank. Now it all comes down to what type of man you have.

Mr. Currie: I do not see how you can provide for that by law or even by regulations in the Articles of Association.

Dr. Hyder: To come back to my point, the success or failure really depends on the kind of man you have.

Mr. Currie: It does in every country I think.

Dr. Hyder: That is the difficulty.

Dr. Trip: We think the only thing to do is to leave it to sound management and sound auditing. But you can never prevent wrong practice by law.

Mr. Currie: In the case of a director of a bank who is a director of another company, you say, if you are going to make a full disclosure, that any bank you like has lent 50 lakhs of rupees to such and such industrial company, well that at once affects the industrial company as well.

Mr. Sarker: But we can improve the provision like this. When so much money has been lent to a company, our company has some interest.

Mr. Currie: You want to put that in the balance sheet?

Mr. Sarker: Yes, it is in the balance sheet.

Mr. Currie: I am rather of the opinion that that may give a very misleading view of the balance sheet. Supposing for instance a bank were to lend a crore of rupees to a firm like Tatas It may be quite legitimate and proper to lend anything up to a crore of rupees to Tatas but if they happend to have a Director on their Board who is also a Director of Tatas, it would give an entirely misleading idea of the business of the bank.

Mr. Lamond: That has actually happend. What happens in a case like that? If a director is director of a joint stock company and a proposal of that joint stock company goes up to the bank that director does not sit.

Mr. Buckley: He withdraws.

Mr. Lamond: I do not see that you can do anything more than that.

Mr. Manu Subedar: Is it conventional or is it provided in the rules?

Mr. Lamond: It is in the Imperial Bank Act.

Dr. Hyder: With regard to the last paragraph of your memorandum, Mr. Currie, I take it that your intention really here is to enforce publicity in banking, is that so?

Mr. Currie: Yes.

Dr. Hyder: That is that the main proposition for a sound banking system is good management and publicity? These are the only two specific proposals that you make, have you any other proposals which may strengthen publicity in anything relating to affairs of banks?

Mr. Currie: Of course, the monthly statements which are made by a bank are made very largely for the purpose of statistics and the Reserve Bank would be the best authority to know what statistics are really useful.

Dr. Hyder: We may make monthly statements of liabilities and assets without showing how the business really stands from month to month. We would like to have a detailed statement from these banks in order to acquaint the central authority, the Reserve Bank, with the business which these banks are transacting.

Mr. Currie: We feel rather that the Reserve Bank is the best authority to say what statistics it wants.

Chairman: In the 1928 Act it lays down the particulars required.

Dr. Hyder: I have not got the provisions in my mind but I understand that in all the countries in Europe the central authority wants more detailed information so that no man can go astray in reading these figures, so that every man can form a just appreciation of the banking that is done and the risks and the liabilities as regards losses that may eventually arise, to see that their position is sound as regards the reserves in relation to liabilities, and such like.

Mr. Currie: Well, of course, the Bank of England is rather a grandmother to all the banks in England and if she has any idea that any bank is doing business which it should not, it asks for information on the subject.

Dr. Hyder: Well, of course, we cannot have anything of that kind here.

Mr. Currie: We feel that it is not good to lay down too many things that the Reserve Bank may call for. I cannot conceive that any bank would refuse to give the Reserve Bank any information that is wanted.

16th February, 1931.

Chairman (Sir Purshotamdas Thakurdas): I think we might begin now. I understand that we are discussing the banking regulations.

Mr. Ramdas Pantulu: With regard to No. 1 of the statement in the supplement to this, may I know whether there is any such regulation in any other country? It has been suggested to us in this Committee that some such regulation would be useful.

Mr. Currie: I think our opinion is that any regulation of that sort would really hamper the proper business of the bank, because although it sounds quite proper that they should not advance money on clean advances on immovable property it is quite proper to make very large commercial loans with a collateral security of immovable property and if you lay down, a hard and fast law that you may not do this, you are going to hamper the business of the bank.

Mr. Ramdas Pantulu: Do you consider it a good suggestion, whether it is sound principle to adopt in practice?

Mr. Currie: If you define the advances against immovable property as merely advances made for the purchase of property and do include loans made in which immovable property is collateral security, then I think it is as well to adopt a policy whereby you do not advance too much, but I do not think it is the proper thing to make legal stipulations on that point.

Mr. Ramdas Pantulu: So on merits you would not support the suggestion?

Mr. Currie: As a policy of directors I think it is right, but as a policy to be laid down I think it would be wrong.

Mr. Ramdas Pantulu: Supposing the directors lay down this policy, do you think they would be right or wrong?

Mr. Currie: Well, then I think there would be no harm in it. It would mean that in their particular case there was no need to make such loans.

Mr. Ramdas Pantulu: The second point I want to know is whether such regulation exists in any other country to your knowledge.

Mr. Currie: I am under the impression that in Canada banks are not allowed to lend against immovable property.

Mr. Cassels: That is so. The way they express it is they are not allowed to make loans against real estate.

Sir Purshotamdas Thakurdas: Not at all, no question of proportion? They are prohibited from it?

Mr. Cassels: Yes.

Sir Purshotamdas Thakurdas: Is the prohibition in Canada in any way connected with your power to issue notes, has that any connection with it?

Mr. Cassels: Well, it may have some connection, some indirect connection, but the main reason is that they do not think that banks carrying public money should tie up in long term loans. They are nearly always

long term loans on real estate. Canada has also experienced many a land boom which has brought disaster in its train and they do not want to encourage that; so they prohibit it.

Sir Purshotamdas Thakurdas: All banks?

Mr. Cassels: Yes.

Sir Purshotamdas Thakurdas: Then when people who own land want to borrow, what do they have recourse to?

Mr. Cassels: Special companies make a business of it.

Mr. Ramdas Pantulu: Item 32 of the same statement, prohibition against the Director of a bank acting as a Director of another bank. You do not want regulations, but do you think it a sound rule to observe in practice generally?

Mr. Currie: No. I do not think I do. If you said "prohibition of a Director of a bank acting as Director of a bank doing exactly the same business", then I can see some point in it, but even then I am not sure that it is necessary.

Mr. Ramdas Pantulu: Do not commercial banks, joint-stock banks, do the same kind of business?

Mr. Currie: In England we have a great many banks who specialise in business in some particular foreign country and they do not in the same way do a very large business actually in England. I consider that it is very desirable that a Director of one of the clearing banks in England might be also a Director of one of these banks which has interest in say trade between England and France.

Mr. Ramdas Pantulu: Does such a regulation exist in any other country, that a manager of one bank should not be Director of another bank?

Mr. Currie: I do not know of any regulation. That is a matter of articles of association.

Dr. Trip: Do you not think it is a question that should be left to competition? I cannot see the possibility of the director of one bank being elected as director of another on account of competition.

Dr. Hyder: Perhaps this suggestion is based on a single instance. I think the Sub-Committee had at the back of their mind the isolated instance of the Bank of England which had no distinct purpose. No banker can be a director of the Bank of England.

Lala Harkishen Lal: Is that a practice or the result of a legislative measure or convention?

Dr. Hyder: It is a convention in the Bank of England.

Mr. Currie: Yes.

Dr. Hyder: But 10 or 12 years ago they departed from that practice.

Mr. Cassels: Merchant bankers can be directors of the Bank of England.

Dr. Hyder: The thing is this. They do not want a member of a joint stock bank to gain knowledge of other joint stock banks and apply it in the case of his own bank.

Mr. Cassels: The Director of the Hongkong-Shanghai Banking Corporation is not a joint stock banker in the English sense. The Shanghai Banking Corporation has its headquarters at Honkong. It has only a London office.

Mr. Ramdas Pantulu: Rule 59. May I know why you consider that suggestion unacceptable for adoption?

Mr. Currie: I think we have already covered that point by our suggestion that powers should be given to the Registrar.

Mr. Ramdas Pantulu: What about existing banks opening new branches?

Mr. Currie: I can see no objection to an existing bank opening a branch anywhere in India.

Mr. Ramdas Pantulu: There may already be other banks doing business in a place, and unhealthy competition might result if a new bank opens a branch there. Do you not think that some authority is required to look into the matter so as to prevent unhealthy competition?

Mr. Currie: If a new bank comes into a town where there are already 2 or 3 banks it is because it hopes it can try and get business and make profit there. It must be that the existing banking facilities must be very expensive: otherwise it could not open a new branch and make profit.

Mr. Ramdas Pantulu: But certain banks may be particularly in an advantageous position to underquote and enter into a competition which will prejudicially affect the existing banks or branches of banks. The Imperial Bank, for instance, can certainly offer facilities which an ordinary joint bank cannot. Do you think, simply because money is made cheap for borrowers, it is in the interests of the country, to allow the Bank to open a branch where joint stock banks are working properly? I do not say that the Imperial Bank will do it. I am only putting it hypothetically. The Imperial Bank with its large resources and Government balances can lend money at cheaper rates, and on account of its prestige attract money at cheaper rates. Therefore joint stock banks actually doing business in a particular town, although they give all banking facilities and are flourishing, will in such a case be subjected to competition. Will not the idea that a bank like the Imperial Bank should be allowed freely to open branches conflict with the idea that joint stock banks should be encouraged in this country to open branches and extend banking facilities. I dare say the Imperial Bank ought to have the power to open branches but in consultation with some authority like the central bank or Government.

Mr. Currie: I cannot see any objection to its competing. There may at the moment be an objection because the Imperial Bank holds Government balances. But when the Reserve Bank is started that position will disappear, and the Imperial Bank will then be in the same position as any other joint stock bank.

Mr. Ramdas Pantulu: Suppose we have a bank which has facilities like the Imperial Bank. Shall we be right or wrong in telling that bank that if it wants to open a branch at a certain place where there are already other banks or branches of other banks, it should obtain the previous sanction of Government.

Mr. Currie: From the point of view of the public it will really not be desirable to put any check on opening of branches.

Dr. Trip: Do you not think it will be rather a dangerous principle to adopt. The Reserve Bank might, later on, think it in the interests of the country to open branches, and if your suggestion that there should be no unfair competition were adopted, you would have to prohibit the Reserve Bank from opening branches.

Mr. Ramdas Pantulu: I thought you told us the other day that the Reserve Bank would only enter the market in order to make its influence felt and that it would not compete. It is a quite different thing.

Dr. Trip: I only said that it should not do so in order to make large profits. If it is advisable in the interests of the country, even a part of the country—the interest prevailing may be very high—I should be very much in favour of the Reserve Bank opening a branch in order to bring the interest rate down.

Mr. Ramdas Pantulu: Government could certainly give permission if it is in the interests of the country. I want somebody to go into that factor. If the Reserve Bank is given the power to judge, with regard to other banks, or the Government is given the power, I am quite content.

Dr. Trip: I do not think it is advisable to place Government in all these cases in difficulties. There will be great pressure brought to bear on Government not to allow the Reserve Bank to open branches. It is not agreeable to banks if another bank comes and opens a branch. But if it is in the interests of the country it ought to be done, and I would advise you to leave it to the Reserve Bank.

Choudhri Mukhtar Singh: If I remember right in the paper on commercial banking we were told unhappy competition between two banks ought to be avoided.

Dr. Trip: I do not think it is right. Dr. Jeidels took the point of view that there might be cases of overcompetition in certain places, but nevertheless he was in favour of absolutely free competition between banks.

Ch. Mukhtar Singh: Is it not a fact in Japan that no bank is allowed to open a new branch unless sanctioned by an authortiy?

Mr. Ramdas Pantulu: My recollection is that in various countries the right to open branches is regulated by some authority. I have read in the book on "Foreign Banking Systems" by Parker Willis that in more than one place in order to open branches they have to obtain the permission of some kind of authority.

Mr. Currie: Nowhere can I see that there is any restriction at all in regard to branches.

Dr. Friederich: No restriction in Germany.

Mr. Devadhar: Supposing there are no restrictions as in other countries, taking into account the need for developing along certain lines the indigenous banking in this country, would it not be advisable to have such a system?

Mr. Currie: I do not think so. To start with, the only business a new branch will get is that which the existing banks themselves will not take, and a branch will not be opened if it is not worth while.

Mr. Devadhar: The existing business will be disturbed.

Mr. Currie: No, it will at the start be in a very much stronger position.

Ch. Mukhtar Singh: Does not such a rule exist in Germany?

Dr. Friederich: No. In Germany a branch of a bank must be registered by a court, but the court has no right to refuse registration. A bank is free to open a branch anywhere.

Dr. Trip: It is only a formality.

Sir Purshotamdas Thakurdas: Anybody opening a branch in a wayside place has to get it registered in a court which has jurisdiction in the place.

Dr. Friederich: According to our law the branches and the headquarters of a joint stock company, which may be a bank must be registered. The court can refuse registration only if the address is not right, or if the address is that of another firm.

Sir Purshotamdas Thakurdas: That is the only reason for refusal. It is to avoid confusion. Are joint stock ccmpanies registered by courts of law in Germany?

Dr. Friederich: Yes.

Dr. Hyder: What is that court of which you are thinking?

Dr. Friederich: (Gireich?) in districts, courts of the lowest instance, local courts. They have a special department for registration of companies and co-operative societies.

Sir Purshotamdas Thakurdas: A registrar of companies is attached to a court of law.

Ch. Mukhtar Singh: In connection with commercial banking the suggestion was made that there must be a regulation to avoid unhealthy competition.

Dr. Trip: I do not remember it. I cannot conceive that Dr. Jeidels would have made such a remark because he was absolutely for free competition.

Ch. Mukhtar Singh: Overbanking should be avoided.

Dr. Trip: Although perhaps overbanking is an evil in itself it should be accepted in order to improve the banking facilities of the country, and free competition between banks should nct be hampered.

Mr. Ramdas Pantulu: Proposal 63. I wish to know, first of all, whether in other countries any foreign firm can acquire a controlling interest in indigenous banking institutions without some kind of authority being invoked on that behalf. Can any English bank acquire a controlling interest in a German bank, or a German bank in an English bank?

Mr. Currie: Certainly a German bank will be able to acquire a controlling interest in an English bank.

Mr. Ramdas Pantulu: I want to know whether there is any restriction.

Mr. Currie: There are one or two companies who made provisions in the articles of association to prevent control passing out of English hands. It was only a case of provision in the articles of association, and it has not so far been very largely adopted.

Mr. Ramdas Pantulu: Can you give any instance of a foreign bank which has acquired a controlling interest in an English bank.

Mr. Currie: Will you consider a Scotch bank a foreign bank. Scotch banks have acquired a controlling interest in English banks.

Dr. Hyder: It is perhaps the other way about. Scotch banks, 4 out of 8, are under the control of the big five.

Mr. Ramdas Pantulu: I was thinking of Great Britain as a whole. Can a German, or a Spanish institution acquire a controlling interest in your banks?

Dr. Trip: I think so. In my country if there is any fear that a foreign corporation will get a controlling interest in a corporation of the country itself, the articles of association are changed; preferential capital is created, and the preferential shares remain in the hands of people that are the nationals of the country and are known to the management and the board of directors. But there is nothing legal about it.

Dr. Hyder: You disfranchise foreign shareholders in order to increase the voting power of the people of the country.

Mr. Ramdas Pantulu: Am I to understand that it is the view of the experts that in no country is there any prohibition against foreign banking institutions acquiring a controlling interest in the banking institutions of the country.

Dr. Trip: Do you think it is possible to prevent that? Shares which are bearer shares can easily be transferred.

Sir Purshotamdas Thakurdas: We have no bearer shares.

Dr. Trip: Apart from the Reserve Bank all the shares of Dutch banks are bearer shares.

Sir Purshotamdas Thakurdas: You mean shares transferable by merely handing over the scrip. Is that so in any other country?

Mr. Currie: Certainly not in England.

Sir Purshotamdas Thakurdas: What about Germany?

Dr. Friederich: We have bearer shares and also shares issued with the name of a person, but in our country the latter are not usual.

Dr. Trip: There are of course exceptions. A part of the share capital is in registered shares, but these can be changed into bearer shares.

Sir Purshotamdas Thakurdas: Then it would appear from your replies to Mr. Ramdas Pantulu that every country does manage to prevent foreign institutions getting control of its own banking institutions. You manage it by amending your articles of association in time to prevent it. If in India there was an apprehension—this is of course a matter to be enquired into locally—that it is not possible to prevent it, would you object to some such provision in the statute? You agree in principle that foreign concerns should not be allowed to get a controlling interest in any Indian bank, and if what you are relying upon in the west is not possible in India owing to various reasons, would you object, at least until the advance here is on a par with what it is in your country, to some provision in the statute?

Mr. Currie: I think it is more a question of the articles of association because any such limitation by statute would prevent the shareholders of existing banks from being able to sell their own property.

Sir Purshotamdas Thakurdas: It would practically narrow the market, but we do not want the market left so broad that what is considered to be in the ultimate interest of the community at large is sacrificed to it. If it is considered advisable not to allow a Japanese bank to have a controlling interest in a good Indian bank, is it not right that its shareholders should be exposed to that risk?

Mr. Currie: Is not that a matter for the shareholders to decide? The bank is after all their property.

Sir Purshotamdas Thakurdas: Then you feel that there should be no prohibition to such a stipulation in the articles itself.

Mr. Currie: If there is a stipulation in the articles, then at least the shareholders know where they are.

Sir Purshotamdas Thakurdas: You won't disapprove of that.

Mr. Currie: No.

Sir Purshotamdas Thakurdas: There is a good Indian institution which has existed for 50 years, and it now attracts the attention of some non-Indian investors. What would you say to that? You would say that the shareholders are wrong in arranging to check it?

Mr. Currie: If shareholders decide for themselves I should approve of it.

Sir Purshotamdas Thakurdas: All that you say is that it should not be embodied in a statute.

Mr. Currie: Because I feel that shareholders should have the right to decide it for themselves.

Sir Purshotamdas Thakurdas: You had similar restrictions put on some companies in London lately. Did their shares suffer on the stock-exchange as a result of those restrictions?

Mr. Currie: It is very hard to tell that.

Sir Purshotamdas Thakurdas: I am only asking it for information.

Mr. Currie: These restrictions were mostly introduced at the time when Americans were trying to buy stocks of every company in the world. Shareholders immediately called meetings and changed their articles of association to prevent Americans getting control over their firms.

Sir Purshotamdas Thakurdas: Did it affect the price of their stocks?

Mr. Currie: It is really very hard to say. Shares were already very much appreciated by the new demand.

Sir Purshotamdas Thakurdas: I want to know whether they were allowed to be quoted on the stock-exchange owing to this restriction. On the London stock exchange the usual rule is—may be a rule or a convention—that shares must be freely transferable to anybody. Were not those shares struck off the list?

Mr. Currie: No.

Sir Purshotamdas Thakurdas: Do you not say that you should not transfer a share to a foreigner?

Mr. Currie: It was more a question of altering the articles of association in regard to voting power than of preventing others holding shares.

Sir Purshotamdas Thakurdas: They did not say that you cannot transfer shares beyond a certain point to non-Britishers?

Mr. Currie: No.

Sir Purshotamdas Thakurdas: How do they manage to alter the voting power? Do they create a few shares of small denominations and give them to those in whom they have confidence?

Dr. Friederich: From 1920 to 1923 the share capital of many German companies came into the hands of foreign capitalists and to prevent this, listed preference shares were issued and given especially to the members of the Directorate of the Supervising Board. These preference shares always have a majority of votes. The ordinary shares could of course come into the hands of foreigners, because they could get a majority in a general meeting.

Sir Purshotamdas Thakurdas: I suppose these listed preference shares, which are issued for this purpose, carry a nominal rate of interest?

Dr. Friederich: In the general meeting some companies always criticise the issue of preference shares, but the German people decided at a general meeting that preference shares, with a majority of votes, should be issued. Sometimes they decide that preference shares should get a preference dividend, but in most cases preference shares were considered the same as ordinary shares. For instance, we had an interest in shares of German companies which were acquired by foreign capitalists; to avoid the business of these companies stopping, preference shares were issued.

Mr. Ramdas Pantulu: The experts' view is that while the banks might take necessary steps to prevent their interest passing through foreign hands, they do not want any statutory provision.

Mr. Currie: Yes.

Mr. Ramdas Pantulu: I think there ought to be some means by which the shareholders of a bank should know how many shares are held by non-nationals and how many by nationals. What objection would you have to a provision requiring banking businesses in India to own a separate register of shares?

Mr. Currie: I do not see any objection on principle if it is considered necessary.

Mr. Ramdas Pantulu: Therefore you were not right in saying in the memorandum that it should not be adopted. Would you modify your group (i) "those which would hamper free competition and the development of banking and which ought not to be adopted" to include item (64) of the Statement prepared by Secretary?

Sir Purshotamdas Thakurdas: Mr. Currie has already said that he sees no objection if it is considered necessary. This is subscribed to by all five experts?

Mr. Currie: Yes.

Mr. Ramdas Pantulu: You say that "the experts place great importance on the necessity of sound auditing but they do not consider that any special form of Government inspection would serve a useful purpose or be any greater safeguard than the present system of auditing by authorised accountants." In the last sentence of the same paragraph you say "the experts feel, however, that the strengthening of the Companies Act with regard to auditing so that the Auditors must make a report and be responsible for its accuracy is all that is required." In connection with this I would place before you the present position of the Companies Act. Section 145 of the Indian Companies Act says that "the auditors shall

make a report to the members on the accounts examined by them and certify that the balance sheet is drawn up in conformity with the law and that it exhibits a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them and as shown by the books of the company." Section 282 of the Act lays down the penalties for a bad certificate. It says:—

> "Whoever in any return, report, certificate, balance-sheet or other document, required by or for the purposes of any of the provisions of this Act, wilfully makes a statement false in any material particular, knowing it to be false, shall be punishable, etc."

Therefore in order to make an auditor liable for an inaccurate or untrue statement, you have got to show under section 282 of the Act that he wilfully makes a statement false in any material particular, knowing it to be false. I want to know the position of the law in other countries and whether it is necessary to prove in a court of law that the auditor wilfully makes a statement false in any material particular, knowing it to be false. It is almost impossible?

Mr. Currie: In England the auditor is responsible for the statement he makes and he has also to make a report to the general meeting and it is up to him to report on any matter on which he is in doubt.

Mr. Ramdas Pantulu: What I want to know is whether he is made responsible for omissions due to gross negligence on his part or only for wilfully making a false statement knowing it to be false.

Mr. Currie: I think he is responsible for both.

Dr. Hyder: The experts refer to it in (*f*) of their proposals which necessitate amendments in the Indian Joint Stock Companies Act.

Mr. Ramdas Pantulu: You suggest that your proposal (*f*) may be put into law?

Mr. Currie: Yes.

Mr. Ramdas Pantulu: In Appendix I of your note you refer to Associations of Indian Joint Stock Banks, Exchange Banks and Indigenous Bankers and say that each of these Associations should endeavour to form rules for their respective members so as to make their practice more efficient and as far as possible identical within their own Association. Would you have any objection to include in your list the Association of Provincial Co-operative Banks, because they also can rediscount their paper with the Reserve bank?

Mr. Currie: I contemplated doing that originally, but I was under the impression that they would be members of the Indian Joint Stock Bankers' Association.

Mr. Ramdas Pantulu: They would not be, because a separate Act governs them.

Mr. Currie: Then I would have no objection to have a separate Association for them.

Mr. Ramdas Pantulu: There is already an Association and they are working under the Co-operative Societies Act. You have no objection to include it?

Mr. Currie: No.

Sir Purshotamdas Thakurdas: There is just one omission in the list circulated yesterday. It is a point which was put up to us. I may refer you to para. 142 of the note on "Regulation of Banking" which runs as follows:—

> "*Liquidation of non-Indian banks.*—It is suggested that some special safeguards should be provided for protecting the interests of Indian depositors and of other Indian creditors in the event of the winding up of non-Indian banks."

Members will remember how this came up in the course of the examination of certain witnesses, and I felt I might complete the list before we passed on.

Lala Harkishen Lal: That would be "(65) Special safeguards for depositors and other creditors in India in case of liquidation of non-Indian banks". Under your proposals which necessitate amendments in the Indian Joint Stock Companies Act, you say:—

> "(*a*) The Act should give powers to the Registrar to refuse the registration of banks whose Articles of Association are not in accordance with the law."

Does that mean that you would make all the provisions where the Articles of Association should not be registered in the Act itself and that the Registrar will simply scrutinise whether the Articles of Association comply with the requirements of the law or not?

Mr. Currie: I would give the Registrar more discretion. These are not specified in detail, because I feel that different banks might have different requirements.

Lala Harkishen Lal: You will leave some discretionary power with the Registrar and you will have certain requirements enacted in the law itself?

Mr. Currie: The requirements to be enacted in the law are given on page 4. Our intention was that the Registrar should be responsible for seeing that the provisions for all these banks were in the Articles of Association.

Lala Harkishen Lal: If there are certain provisions in the law and the Registrar is asked to see that they are complied with, the matter is simple. But the difficulty comes in where, in addition to the provisions in the law, the Registrar is given discretion to rule that a certain provision should be made in the Articles of Association. Is that your idea?

Mr. Currie: Yes.

Lala Harkishen Lal: You will have two means of controlling this part of banking; one is the Act itself and the other would be the Registrar's discretion?

Mr. Currie: Yes.

Lala Harkishen Lal: From what class would you recruit such a Registrar whose discretion in banking matters and in the future development of banking in the country would be binding on banks?

Mr. Currie: The Registrar is the Registrar of Joint Stock Companies. He is responsible for looking into the various provisions in the Articles of Association and if he thinks that any of them are not right or binding enough, he would refer the matter to the Reserve bank.

Lala Harkishen Lal: But that is not provided for here. You said that in addition to the limitations laid down by the Act the Registrar should have further discretionary power to limit the company's activities.

Mr. Currie: Yes.

Lala Harkishen Lal: But where would you recruit such a man from? He would be recruited from all sorts of people and very likely he would not know anything about banking matters and would not be specially trained in banking.

Mr. Currie: I refer to the ordinary Registrars of existing Joint Stock Companies.

Lala Harkishen Lal :They are at present recruited from the Civil Service, sometimes they are lawyers, but never a banker.

Mr. MacDougall: Would a lawyer not be a sound man to hold a position of that kind?

Lala Harkishen Lal: He would be a sound man, but he will not have any knowledge of banking. The difficulty would be that if a Registrar were to use his discretion, he would use it one day in one way and on another day in a different way; the result would be that a curious system of banking would develop in the country. Besides, the Registrars are provincial. The Registrars might use their discretion in a way that a bank which is intended to be more than one province bank ought not to do. If there was a bank at Lahore which was dealt with by a certain Registrar and it goes to Allahabad, the Registrar at the latter place will have a different conception of his duty in regard to his discretion. Therefore it seems to me that there should be no discretion left to the Registrar who ought merely to see that the Articles of Association fulfil all the requirements of the law as laid down for the time being.

Dr. Trip: I see your point quite well. We felt difficulty for putting everything in the Act, because there are various types of banks and one cannot put into law all cases that may arise. Therefore we thought that certain discretion ought to be left to the Registrar. In our country, the Registrar before taking his final decision would ask the advice of the Ministry of Finance or the Reserve bank. I would like to know if your point would be met if the Registrar's decision was subject to the advice of the Reserve bank.

Lala Harkishen Lal: I would say that if the Articles of Association have to be looked at from the point of view of what is absolutely necessary for banking at any particular time, I would leave that part of it to the Reserve bank, not in the Act nor to the Registrar, because the Reserve bank will have the experience. Other legal matters may be left to the Registrar. So far as the stipulation of safeguards are concerned, I should leave it only to the Reserve bank, if it is necessary to be left.

Dr. Trip: We doubt whether it is possible to take it away from the Registrar and give it to the Reserve bank. The latter can co-operate and the advice of the Reserve bank on points on which the Registrar is not an expert would in practice be followed. If you have any doubts in the matter, we have no objection to giving it to the Reserve bank.

Lala Harkishen Lal: The situation in this country is that the Registrar is not a permanent functionary. He is recruited from various places and he goes on long leave at no notice. The Articles of Association may

have been submitted to the Registrar and he may have only looked at half of it and put down his notes. Then a new Registrar comes who has never done such work before and he looks at the other half from another point of view.

Mr. Sarker: So far as insurance is concerned, the Registrar acts in co-operation with the Government.

Lala Harkishen Lal: I do not think they are bound to. In some cases the Registrar may be inclined to take advice, in many cases he would not. Some Registrars may and some may not. I have had very long experience with Registrars and I feel that they are not competent to deal with these matters.

Sir Purshotamdas Thakurdas: In view of such a state of affairs, the experts would be quite prepared to modify their views so as to give the power to the Reserve bank.

Lala Harkishen Lal: It would be much better for the Committee to leave a recommendation that such matters should be left to the Reserve bank rather than to people not competent to do them. Coming to your proposal (*b*): "these Articles must prohibit other activities than banking", this may stand provided you define what is meant by banking. "Other than banking" may mean other than anything in some cases.

Dr. Trip: Should not that be left to the Reserve bank?

Lala Harkishen Lal: Of course the Reserve bank will understand what is meant by banking. Would you not add the words 'at the time' after clause (*b*)? There are many classes of banking, *e.g.*, co-operative banking, commercial banking, industrial banking, agricultural banking, and banking would also include foreign banking. One foreign bank might have a provision which does not appeal to the authorities here, and still it may carry on that business as a part of banking while the indigenous bank cannot do it.

Mr. Lamond: All banks operating will come under these rules.

Dr. Trip: With the exception of foreign exchange banks established in other countries.

Mr. Buckley: There are provisions in the English Companies Act relating to foreign companies incorporated outside England and therefore, I see no reason why there should not be provisions in the Indian Companies Act relating to banks which are incorporated outside India and are working in this country.

Lala Harkishen Lal: The provision is there that companies registered outside British India can be recognised. The Baroda bank, for example, is not registered in British India, but under the Companies Act of Baroda, but it is recognised here as a company. That is a different provision forming what is called "corporate person". It is only to the extent that business can be done by a corporation in British India, but beyond that the provisions do not go.

Dr. Trip: Banking is a conception that is quite general.

Lala Harkishen Lal: In certain countries it is provided that certain securities are valued, and in certain others they are not valued and these are mentioned in the banking laws. The scope of banking is also undefined. For example, there is a difference of opinion in this country

whether the remittance business is a proper function of co-operative banks. Some consider that it is not a legitimate aspiration for the co-operative banks to do remittance work. Co-operative banks are banks and they may be permitted to do remittance work. Without expressing an opinion, I am simply explaining that even in this country with different classes of banks some functions are considered proper and some not proper. Supposing there is some kind of combination of these different functions, would the Registrar confine his activities to the co-operative bank or to the commercial bank? It is rather a large question.

Dr. Trip: If you have a co-operative bank which is under a special Co-operative Act.

Lala Harkishen Lal: Co-operative Act is also an enabling Act and not a restrictive Act.

Dr. Trip: But you have the Registrar all the same.

Lala Harkishen Lal: Co-operative Banks have distinct Registrars of their own and everything is different from joint stock business.

Dr. Trip: Then the question with regard to co-operative banks would not arise.

Lala Harkishen Lal: Banking neither in India nor elsewhere is definite so far as the scope is concerned. Unless therefore the scope is defined nothing can be done.

Dr. Trip: It is quite true but we have borne in mind that banking will not include the possibility of mining, shipping and such other things that are quite different.

Lala Harkishen Lal: A bank might not do mining but might take shares in a mining concern and assist it in other ways. When the Reserve Bank comes into being it might give advice to the bank that at a particular time of the season coal mining is very risky and the bank should not advance its funds. But the Registrar of Joint stock companies cannot do that.

Dr. Trip: In any case it can only be an advice. Nobody can prevent banks from doing this or that thing. As a matter of fact I know of instances of banks which had to run mining concerns because the concern was placed as security with the bank.

Lala Harkishen Lal: How would you say that the particular activities of the bank ought to be provided for in the articles of association.

Dr. Trip: You are quite right. You cannot prevent a bank in practice from doing a business. Therefore all legislation in that respect will have only a limited importance.

Lala Harkishen Lal: Therefore neither the activity nor banking can be defined legally.

Dr. Trip: That is true no doubt technically.

Lala Harkishen Lal: In your country are the articles of Association distinct from the Memorandum of Association?

Dr. Trip: We have no memorandum of association in our country. We have only the articles of association.

Lala Harkishen Lal: But in England they are both separate as they are here. The point is that there may be a provision in the memorandum about doing certain kinds of business but there may be no such provision in the articles of association. As the business grows in volume the company might decide to change its articles and then the Registrar would be powerless. I think development does not really depend on strict regulations. That may be, but you are thinking of the articles of association and not the memorandum.

Dr. Trip: Yes.

Lala Harkishen Lal: You say that the authorised capital must not be more than double of the subscribed capital and the paid-up capital should not be less than 50 per cent. of the subscribed capital. You have not said at what stage it is that you want to reach this proportion.

Dr. Trip: Before they start business, *i.e.*, before registration of the concern.

Lala Harkishen Lal: The subscribed capital does not come in this country all at once. People will generally say, let us see how the business is getting on and then if we find that it flourishes we shall take shares.

Dr. Trip: For that purpose then you can fix your authorised capital at a lower level and then proceed with the business.

Lala Harkishen Lal: In our country the general practice is for 7 or more respectable persons to join together and issue the memorandum of association promising to take up so many shares in the company. It is only after registration that the public is asked to subscribe to the capital. It is in this way that most limited concerns have been started in this country and they have also flourished. That being the case, I do not think this limit which you are trying to place will prove workable at present.

Mr. Currie: Do you mean to say that in this country any company which is started will commence to do business instantly?

Lala Harkishen Lal: Much depends on what class of company it is. If it is a manufacturing company then it would not order machinery unless a sufficient amount of capital has been subscribed.

Dr. Trip: When we made this suggestion, we wanted to ensure that there was a provision that no registration takes place before the original founders of the Company have taken at least one-fifth of the authorised capital. That is the case in Holland.

Lala Harkishen Lal: But here you do not mention that the amount should be subscribed before registration.

Dr. Trip: Yes, we would like the words "before registration" added to item (*d*) at the end under proposals with regard to the amending of the Indian Joint Stock Companies Act.

Lala Harkishen Lal: Promoters of banking in this country will never start a concern with a small authorised capital. Therefore, banking will necessarily be in the hands of small people. Big and respectable people will never start banks with small capital.

Sir Purshotamdas Thakurdas: You say the limit in your country is one-fifth before registration but I cannot see why you insist upon one-half in this country.

Dr. Trip: We were under the impression that many small joint stock banks were started and even these small banks showed huge authorised capital.

Lala Harkishen Lal: There are two classes of joint stock banks. One set is the so-called mushroom banks. These classes of banks with small paid-up capital sometimes live up to 50 years. Secondly, there are the big joint stock banks. Instead of preventing the growth of such mushroom banks you would by your 50 per cent. provision be encouraging their growth and discouraging the growth of really good banks.

Dr. Trip: They can raise the capital later on. Can't they?

Lala Harkishen Lal: The difficulty is that big people with a view to starting big concerns would not start business on a small scale.

Dr. Trip: Do you think that a bank with an authorised capital of Rs. 1 crore can commence business with only 10 shares of Rs. 100 each subscribed? I consider that it would be very wrong to do so although it is started by big men.

Lala Harkishen Lal: The first bank that we started was with an authorised capital of Rs. 2 lakhs of which we proceeded to allotment with Rs. 43,000 subscribed. Gradually the capital was increased and now its authorised capital is Rs. 50 lakhs and paid up capital is Rs. 30 lakhs. At present it fulfils the condition which you want to lay down but the present state of affairs has come about in the course of 50 years or so. The other bank which I, along with some of my friends started, the Peoples' Bank of Northern India, was started with a capital of Rs. 50 lakhs of which Rs. 5 lakhs was subscribed when business was started. Then later on we raised the capital to a crore of rupees. Today its subscribed capital is Rs. 96 lakhs. We decided that 5 per cent. of the share amount should be paid on application and afterwards one rupee per share per month for 50 months and in this way we had absolutely no difficulty in collecting the money required. By doing so we encouraged poor people to take up shares in the Bank. The other idea of doing so was to fix up a certain proportion of the paid up capital with the amounts taken in as deposits with a view to get a fairly decent dividend.

Dr. Trip: But what is your objection to start business with an authorised capital of Rs. 1 lakh?

Lala Harkishen Lal: I would not put my signature to the prospectus of such a bank for the simple reason that the public will consider me a fool for trying to start banking with such a poor capital. This I say as a result of my 33 years' experience in Banking. The first bank that I contemplated was in 1893 and the other bank was started in April 1925.

Dr. Trip: But we have the conception that something should be done to prevent the starting of institutions with huge authorised capital and very poor paid up capital. So we thought the only way to get over that state of affairs is to ensure a certain proportion.

Lala Harkishen Lal: People will start banks with a nominal capital of Rs. 5,000 and a paid up capital of Rs. 1,250 which satisfied your recommendation. Assuming for argument's sake, that these small banks are an evil—though I would not commit myself to any statement either for or against—do you mean to say that this will conduce healthy growth of banking in this country?

Dr. Trip: We are of opinion that for the needs of a small up-country town a small bank would suffice and it will do a great deal of good. Hence the difficulty in fixing up a limit for nominal capital.

Lala Harkishen Lal: If that is so, if you will permit me to suggest, you ought to work it the other way. Under the Companies Act so much has to be provided—take that as A. That A should be subscribed, doubled, that A should be authorised four times. Start from there because there is provision in the Companies Act that a minimum capital subscribed, of course that is subscribed, not paid up. You say instead of the word "subscribed" let us put in the words "paid up".

Mr. Currie: What difference does your proposal make?

Lala Harkishen Lal: This really only helps the small banks, which you do not want to advocate.

Mr. Currie: You seem to imply that the size of a bank is increased by its authorised capital. It depends on its paid up capital.

Lala Harkishen Lal: If that is the case people would not put in much subscribed capital. Therefore if you want to provide against that it has to be provided under law. If the people did not see that should we have to pay a fair amount of money on registration? We do that because we think there is some advantage. As a matter of fact from my experience the country itself does not know the difference between the words authorised, paid up and subscribed. Sometimes they leave out the word authorised. Then the law laid down that the word authorised should be mentioned in all the prospectuses and the advertisements. To me it is a very small matter but it is not workable the way that it is worded. If you word it differently one might understand it.

Dr. Friederich: In my country our Companies law prescribes that the whole share capital must be subscribed before the registration. You do not have this difference between authorised capital and subscribed capital, but the whole share capital must be subscribed before a company can be registered. With regard to the paid-up capital at least one-fourth of the subscribed capital must be paid up before registration, and the registrar or the law court has to examine whether these conditions are fulfilled or not, and in case they are not fulfilled then registration cannot be done.

Sir Purshotamdas Thakurdas: There is nothing like authorised capital in Germany?

Dr. Friederich: No.

Lala Harkishen Lal: According to these recommendations a bank can be started with Rs. 4 authorised capital, Rs. 2 subscribed capital and Re. 1 paid up.

Dr. Trip: If you paid up Rs. 4 you can make an authorised capital of 1 crore, then perhaps you could get some deposits.

Lala Harkishen Lal: That is all right. This Act went further and said in the advertisement you ought to mention authorised capital, subscribed capital.

Dr. Trip: That is in the wrong direction, I think.

Lala Harkishen Lal: My own view is that it has helped a great deal. But the public does not even now understand the difference between authorised, subscribed and paid up.

Dr. Trip: Therefore for that reason we want to avoid those general figures of authorised capital to be put in advertisements because people don't understand what the real meaning of authorised capital is, and if you make this provision, then I do not see there is possibility of putting in the advertisement those words 'authorised capital' with regard to the paid up and the subscribed capital.

Lala Harkishen Lal: "No allotment shall be made of any share capital of a company offered to the public for subscription unless the following conditions have been complied with, namely, first the amount having been fixed by the memorandum or articles of association and named in the prospectus as minimum subscriptions upon which the Directors can proceed to allot". That is the only provision. It may be anything. At present it is this and this is an improvement on the old law. Thus as it is to my mind the very small banks are no good as very large banks would perhaps be no good, and the minimum capital so far as banking is concerned, should be a very low minimum, but a minimum fixed. The rest, authorised and subscribed, should come in relation to that. I personally would like paid up, then all this trouble about what may be called fraudulent banks would disappear. My own experience of the Punjab is this, that up to 1913 when the banking plague came the banks were very good, started by serious people and worked by serious people and the results not only of the People's Bank of Northern India but other banks also, were very satisfactory in liquidation. Hardly any came down below 12 annas or 13 annas in the rupee to pay. Liquidation took up to 1919. Then began the starting of banks which were not honest banks. The desire of banking in the Punjab was intense so that as soon as a bank started people began to borrow. The Registrars of joint-stock companies and others did not know what to do. Then I thought of the People's Bank of Northern India. Since then the Punjab has not registered one single bank of that description because we met the need of the people. My own view so far as banking is concerned, is that we ought to have a minimum capital.

Sir Purshotamdas Thakurdas: And the authorised capital may be anything?

Lala Harkishen Lal: No, this is alright.

Sir Purshotamdas Thakurdas: If you come to that ratio you could not have a bank with an authorised capital of a crore and paid up capital of Rs. one lakh.

Lala Harkishen Lal: No. For example a lakh of rupees minimum paid up. Then of course the rest may follow.

Dr. Trip: But we were of opinion, Mr. Chairman, that one lakh capital would be far too much.

Lala Harkishen Lal: Very well, let us say 50,000. My point is to provide against the evil we have felt. In the Punjab we have felt that evil.

Sir Purshotamdas Thakurdas: Then you agree with them but all you want to do is to go up from the bottom?

Lala Harkishen Lal: Yes, I am not saying it is really necessary, but without that it may be only Rs. 5,000. Until that is done it is not effective because the language is not understood.

Sir Purshotamdas Thakurdas: I suppose we have discussed this point. I do not think there is any great difference of opinion.

Lala Harkishen Lal. You have referred further to (*e*) clause 5 of section 55 of Dominion of Canada Act of 1923. I simply want to draw your attention to the fact that our Act is based on the English Act and you recommend that the provisions of the English Act are not good enough but the provisions of the Canadian Act are.

Mr. Currie: It is only this provision here—"No remuneration of auditors should be valid unless fixed at a general meeting of the shareholders".

Lala Harkishen Lal: That is done every day. In the first year the auditors may be appointed by the Directors and remuneration also fixed by them. In the second year the auditors always have to be appointed by shareholders and also the remuneration is to be fixed by them.

Sir Purshotamdas Thakurdas: The witnesses that Mr. Currie refers to had something else in mind. Some witnesses before us complained that other payments are made to auditors for doing other odd jobs.

Lala Harkishen Lal: That ought to be provided as such then.

Sir Purshotamdas Thakurdas: Exactly. Under the Indian Act as at present the remuneration for audit is fixed by the shareholders. Supposing it is Rs. 1,000, that is all that is paid. The grievance of the witnesses was that over and above this Rs. 1,000 they pay the auditors say Rs. 500 more for looking at some branch and that makes it worth the while of the auditors to connive at certain things. I don't think as a rule auditors draw more than what is sanctioned by the shareholders.

Lala Harkishen Lal: That is in the Act itself. Also the Act says that the auditor shall not be interested in any other manner in the company which he audits, excepting as an auditor and a shareholder. He may be a shareholder.

Sir Purshotamdas Thakurdas: But you know those witnesses at Poona said that some banks give substantial advances to the auditors.

Lala Harkishen Lal: That is against the Law. But if you are provided against that you ought to say so. It is already there in general terms that they should not be interested in the company by salesmanship, by purchase, or borrower or lender. Out of that an evil has arisen which ought to be provided against rather than this. Is not that your view?

Mr. Currie: Yes.

Lala Harkishen Lal: And if you want to guard against what the evidence was that baksheesh is given. . . . .

Mr. Currie: We were rather under the impression that the law allowed for a remuneration for services apart from the bank.

Lala Harkishen Lal: It does not?

Sir Purshotamdas Thakurdas: Mr. Masani says that there is nothing in the Indian Act to prevent the auditors being paid for any extra work in a joint-stock company.

Lala Harkishen Lal: If that is the case that also is to be considered.

Chairman: I think that is what they suggest should be discouraged.

Mr. Cassels: Mr. Chairman, in the beginning we mentioned the Canadian system of auditing. In clause 12 it shows that an auditor may not undertake any other duties. It bars him from doing anything except auditing for remuneration as agreed to.

Sir Purshotamdas Thakurdas: We should tighten up the Indian provision.

Mr. Buckley: "(e) A provision should be inserted with regard to auditing on lines similar to clause 5 of section 55 of the Dominion of Canada Act of 1923." Clause 5 of section 55 reads: (Read clause). Well, I have heard objections to that, on the ground that a man who is doing the audit of a bank's books gets so acquainted with them that the next time he does them he is able to do them so much quicker.

Mr. Cassels: As a matter of practice that auditor when his two years is up will probably be an auditor of another bank. They are constantly changing banks.

Mr. Buckley: What I wanted to say is this. It is not a question of an auditor being thrown out of work. Take for example an inspector of say an Exchange Bank. If he has already done an inspection the year before he is absolutely *au fait* with everything. If you are going to change him every two years I don't think it is entirely satisfactory.

Mr. Cassels: A new man will come along who has been auditing another bank. He knows just as much about one bank as he does about another.

Mr. Buckley: One bank may have doubtful debts. They are totally different from another bank's. The man, for example, who is auditing bank A knows in a particular year that the doubtful debts are so and so. If he carries on the following year he knows exactly what doubtful debts to look for to see how they are getting on. If after two years a new man comes along you lose the continuity. I do not think this is an advantage to prevent collusion.

Mr. Cassels: But you have a new broom. He is probably just as able an auditor as the man who has left.

Mr. Buckley: I was just wondering whether the advantages might be outweighed by the disadvantages.

Dr. Trip: We read the papers about the difficulties which have been experienced in this country and we did not get the conviction that all the auditors were first-class auditors, so we thought it would perhaps be wise to change the auditors. That is the point, if you have all first-class auditors then I would be in favour of keeping the same auditor all the time, but if you have auditors who do not audit in a correct way or do worse things, then I think it would be a good thing to change them.

Mr. Buckley: Unfortunately Calcutta had a bitter experience of an auditor who was considered to be first-class and that was no guarantee at all in the end.

Dr. Trip: If you change the auditors then you have the possibility that after two years a real good auditor comes in.

Mr. Buckley: My point is that the actual cases where the auditor turns out to be a rogue are very rare and this provision is inserted to prevent that sort of thing happening, but it seems to me that there are disadvantages which would outweigh that advantage.

Lala Harkishen Lal: A bitter experience of my own is that the auditors are as honest as any other people in the surroundings. But the actual difficulty in this country, so far as Indian concerns are concerned, is that they are not paid adequately. When we put the matter before a general meeting and say our work has doubled and therefore we ought to double the auditor's pay every shareholder objects. Then a bargain is made. The result is that the auditor takes too much work on his hands and cannot do it efficiently. That is really what is the chief complaint, because in a bank if a man has to form some opinion about the outstandings he must have some time.

Sir Purshotamdas Thakurdas: Have you the same restriction in Holland, Dr. Trip?

Dr. Trip: In Holland auditors are selected and remunerated by the management. They are paid very well.

Chairman: The Directors fix their remuneration?

Dr. Trip: The Managing Directors even; the Board of Directors do not concern themselves with it.

Mr. Lamond: They are not changed every two years?

Dr. Trip: No.

Mr. Currie: In England the shareholders on the advice of the directors normally appoint their auditors and fix their remuneration.

Dr. Friederich: In Germany these auditors have special associations and these associations prescribe that every member of the association is to charge a certain amount of money for his work and it is not a matter for the companies to fix a fee for these auditors, but it is a matter for these special associations. They prescribe that every member of the association has to take at least such an amount for activity of so many hours a day.

Sir Purshotamdas Thakurdas: Are the auditors changed every two years as in Canada?

Dr. Friederich: That is at the will of the company. We have no special prescription.

Sir Purshotamdas Thakurdas: Who elects the auditors, shareholders or management?

Dr. Friederich: It is a matter of the management. They are not appointed by the shareholders, but they can urge a general meeting in order to appoint a special auditor if they desire.

Sir Purshotamdas Thakurdas: At present Canada has the strictest rules.

Lala Harkishen Lal: In Canada there are special banking auditors. In our case they are general auditors.

Mr. Cassels: In Canada they are not special bank auditors, they are chosen out of a list of chartered accountants association, since it is those members of the association who are eligible under the Act for bank audit, that is they have been in business for 6 consecutive years. That list is sent up to the Minister of Finance and he has the right which he never uses of declaring anybody ineligible and out of that list the selection is made.

Lala Harkishen Lal: Can you give any idea of how these auditors are paid so as to be out of temptation and have sufficient time to do the audit?

Sir Purshotamdas Thakurdas: In an important country auditors are paid between £2,000 and £3,000, which includes the cost of the staff employed to audit head offices and branches within the country and overseas. Out of pocket expenses such as travelling expenses, hotel expenses, of the staff are paid by the banks.

Lala Harkishen Lal: Please make it clear whether the programme of audit of branches is fixed by the Directors or by the shareholders.

Sir Purshotamdas Thakurdas: The programme is fixed by the managing board. It would be so in India too.

Mr. Cassels: No. Auditors are men of high standing and they have their reputation to protect. It is left to their judgment as to what they should examine in consultation with the Board of Directors. They will not go to a small place, but will take up the audit of a place where there are large deposits, investments, loans. It is at their discretion.

Lala Harkishen Lal: So the Directors and the auditors consult together. The idea that I got was that auditors were free to fix their own programme of audit.

Sir Purshotamdas Thakurdas: That finishes the Auditors section.

Lala Harkishen Lal: Page 3 of Banking Regulation (*g*). The words 'trust receipt' and 'fraud' are not explained. So far as I am aware there is no such thing as trust receipt in Indian law. This is a name banks have invented. Whether it is at all a trust receipt at any stage is quite a different matter. My attention has been drawn by Mr. Buckley to Schedule C of the Canadian Act: that also is not a trust receipt. I do not know what name they give it in the Act itself, but here it is not called a trust receipt. Unless a trust receipt is defined. . . . .

Sir Purshotamdas Thakurdas: We know what is meant by a trust receipt when we use it.

Lala Harkishen Lal: But what I say is that trust receipt is not a legal name, it is a name given by banks. If a trust receipt becomes a trust receipt under any law, the consequences of a breach of that law will follow.

Sir Purshotamdas Thakurdas: You think there will be any difficulty in defining trust receipt.

Lala Harkishen Lal: I think there will be very great difficulty. The first thing is whether a trust can be created. Banks lend money. The borrower draws the money by cheque and gives a receipt. The security against the receipt is to-day one set or one class of articles and to-morrow another, and these all vary in quality, quantity, price and so on. The question is whether a trust can be created in such circumstances.

Then the receipt itself is neither a negotiable instrument, nor is it a bond. We should, first of all, make clear the nomenclature before we go further. Have you seen in India what banks call a trust receipt?

Dr. Trip: I have seen it in Dutch East Indies. They also call it a trust receipt. Just as you say, is the case here, there also it is not in the law.

Lala Harkishen Lal: To my mind it is no document. It is simply trust.

Sir Purshotamdas Thakurdas: Moral trust.

Lala Harkishen Lal: The first thing is whether under our law a trust can be created verbally. If it cannot be created verbally then we have to see whether the document is such that we can call it a trust document. Supposing it cannot be created, what is that document, it is worthless. Money has been advanced on trust—that is the correct word—and unless you define trust receipt under law, a breach of which will be treated, not as a civil, but as a criminal offence, we cannot go any further.

Sir Purshotamdas Thakurdas: Is there anything like that in Canada?

Mr. Cassels: Trust receipts are used very largely, and any breach of the trust is a criminal offence.

Lala Harkishen Lal: You are referring to Schedule C of the Act.

Mr. Cassels: I do not know what section it is. But what I say is a fact.

Lala Harkishen Lal: It looks like what we call hypothecation in this country.

Mr. Cassels: It is not hypothecation because the borrower keeps the goods in his own possession. The bank has no control. In a case of hypothecation we make a loan to a man against the security of stocks, bonds and debentures. We have these in our own possession. He signs a letter of hypothecation which gives us the right to sell the stocks or the goods, if we like, in payment of the loan.

Lala Harkishen Lal: A document to facilitate advance in that shape should be recognised by law—you may call it by any name—and breaches of that must be treated under the law.

Mr. Ramdas Pantulu: The bank has a lien on the goods and only lets the borrower hold them in trust for it, and if he disposes of them in violation of the trust does it not come under the criminal law of the country?

Lala Harkishen Lal: Both the things should be on all fours—the law and the document. They are not so at present. Neither is the document a legal document, nor are the obligations definitely laid down as trustee obligations.

Mr. Ramdas Pantulu: If a man takes delivery of the goods on a trust receipt, agreeing that he will hold them in trust for the bank, and disposes of them, he commits a breach of the Indian Penal Code, and he can be prosecuted.

Lala Harkishen Lal: There are so many 'ifs' there that it does not come within the purview of the definition. Therefore, to facilitate banking, a document should be created, call it by any name, which should enable banks to lend money in a certain fashion and a breach of that should be punished under some law.

Mr. Buckley: A document drawn up on lines similar to what banks call trust receipts and bearing the same stamp.

Lala Harkishen Lal: With regard to stamp duties, the whole question has to be considered because certain documents are stamped illegally. If the words 'trust receipt' do not appear in the Stamp Act, the document is no good; moreover, we have to consider the stamp on pronotes, on hundis and bonds, on mortgages, on debentures and so on. Another question which does not arise out of your note or the evidence, but one which sometimes gives trouble to bankers, is about making advances against one's own fixed deposits. If A deposits Rs. 5,000 for six months, and he comes after a month and says he wants money on the security of his deposit, some banks do advance money. Two points of view are made in this connection. One point of view is that of the bank itself and at certain stages. If the banks generally recognise this practice of giving advance on deposits, then the deposits cease to be fixed deposits. The other point of view is that so far as the law goes, deposits are a debt to the bank from the depositor. A debt to the bank means that in case of liquidation or winding up, all debts have to be considered equally. If a man gets money in advance against his deposits, the courts would not allow it, but the authorities of the bank give preference at the time when liquidation is in sight. Supposing deposits are being withdrawn and some people who have fixed deposits wanted advances against those deposits, a banker would be given preference, but preference is not allowed. It is a criminal offence. I should like to know what the practice is in Europe and the parts of the world you represent how far are deposits made and in what form? I tell the people who approach me that I cannot give advance on these deposits. They say that other people give advances. It is quite a common practice here.

Mr. Currie: When a man has a large amount of money on deposit, he makes arrangements to withdraw his long-term deposit on the understanding that he does not get the rate of interest that he would get on his three-months' deposit.

Lala Harkishen Lal: Is that a common practice?

Mr. Currie: Yes.

Lala Harkishen Lal: If a deposit is made, say, for six months or eight months and the man comes along in a month and wants to withdraw his deposit, you would let that deposit be considered as if it was on notice and give him the notice rate and not the fixed rate. Is that a bargain?

Mr. Currie: That is done.

Lala Harkishen Lal: Supposing a bank is really on the verge of liquidation and such a thing is done, would that be allowed by law or in practice?

Mr. Currie: I do not know of such cases having arisen.

Lala Harkishen Lal: In liquidations in India it has been held that deposits are debts due from the bank and if the bank cannot pay more than 6, 7, or 8 annas in the rupee, the deposits are valued at that rate. Meanwhile the notice rate, which may amount to, say, 2 annas, should not be given, knowing that the bank is under liquidation. If it is done it would amount to breach of trust. If a bank does it, everybody would come and demand his fixed deposit, though it was not due then.

Mr. Currie: There is an option to the bank.

Lala Harkishen Lal: Therefore, I want conditions laid down, because in some cases depositors do come and say that at the time of deposit the bank agreed to let them withdraw whenever they wanted and then practically the whole deposit is due on demand.

Mr. Currie: The bank does not have to do it.

Lala Harkishen Lal: I am asking this question because this practice of making loans against deposits is becoming a little too common. I want to know what the practice in other countries is and whether you, as an eminent banker, think it is the right thing to do.

Mr. Currie: All I can tell you is that it is done.

Lala Harkishen Lal: To what extent? Is it a common practice and do many people do such a thing?

Mr. Currie: It is not a very common practice.

Lala Harkishen Lal: And from the banking point of view, would you not deprecate that practice? You will not encourage it?

Mr. Currie: I should not encourage it, but I should look upon the deposits as practically a security.

Lala Harkishen Lal: As good security within the value of the deposit in the bank?

Mr. Currie: Yes.

Lala Harkishen Lal: If you told the depositor that the value of his deposit was 10 in the pound?

Mr. Currie: I do not think such a case will arise.

Lala Harkishen Lal: Such cases have arisen at the time of liquidation.

Mr. Currie: That is a different thing. Until a bank actually closes its doors, it has authority to carry on.

Lala Harkishen Lal: My idea is that if the directors or managers are conscious that the bank cannot go on for a long time they should not take deposits?

Dr. Trip: That is right.

Lala Harkishen Lal: If they do, they really cheat the public.

Dr. Trip: In my country I have the impression that it is not much done. It is an exception. It is mostly done this way: The customer goes to the bank and discusses the question and then he is allowed to get the money back, so that the character of the deposit is changed.

Lala Harkishen Lal: That is quite common.

Dr. Trip: It also occurs that a deposit is made to another bank, so that it is not the depositor in the bank who gets the money, but the depositor in the other bank.

Lala Harkishen Lal: That is quite legitimate. If one bank owes another, on the security of that debt, you may or may not advance. It does not run the risk to which I am referring. I was referring to cases where depositors insist upon withdrawing their deposits on the ground that the arrangement was agreed to at the time of deposit.

Dr. Trip: I am not absolutely sure, but I daresay it is not practically done in my country and it is not allowed by the banks.

Lala Harkishen Lal: That is practically my experience; Mr. Currie says that it is done, but rarely. May I ask Mr. Cassels what his experience about loans on fixed deposits is?

Mr. Cassels: I have never known the case of a loan against fixed deposits. The main deposits are for three months and if a man comes along after one or two months, it is done by agreement.

Dr. Friederich: In our country it is done, but it is an exception. Where it is done, the auditor has to consent and to see that the depositor is paying out of the deposit his dues.

Lala Harkishen Lal: Under your "proposals which ought to be met by the Articles of Association", you refer in (*d*) "provisions in order to enable shareholders to inspect the balance sheet and profit and loss account and to take effective action at the general meetings". I do not understand this. Are these not provided for?

Dr. Trip: Enough time is not given to the shareholders with a view to discuss the points at the general meeting.

Lala Harkishen Lal: Then the point ought to be made clear.

Sir Purshotamdas Thakurdas: Has it been brought to your notice that under the present Act enough time is not allowed to the shareholders to enable them to inspect the balance-sheet and profit and loss account?

Dr. Trip: I gathered so.

Lala Harkishen Lal: Generally shareholders are not keen to look at the books, etc., but if they do, sometimes objection is raised.

Sir Purshotamdas Thakurdas: We have no trouble about it in Bombay. I have never heard that shareholders who wanted to inspect books were not allowed to do so.

Lala Harkishen Lal: They are allowed to look at certain books, but not at all books.

Sir Purshotamdas Thakurdas: Is it the experts' recommendation that all books should be left open for inspection?

Lala Harkishen Lal: So far as the people's accounts are concerned. On the other hand, the convention is all the world over that these are confidential and should not be shown to anybody except under the law and the Articles of Association.

Sir Purshotamdas Thakurdas: I want to know actually the nature of the complaint which has necessitated this recommendation.

Lala Harkishen Lal: This is simply a recommendation to the effect that shareholders should be entitled to see the books and accounts of a bank.

Sir Purshotamdas Thakurdas: But that is already the practice in vogue as it is to-day. What is it that has been brought to your notice which has made you say that this is a proposal which ought to be met by the Articles of Association?

Dr. Trip: Our impression was that in some Articles of Association the time limit was so short that, having regard to the distances in this country, the shareholders were not in a position to look at the balance sheet and the profit and loss account, and be prepared to argue at meetings of shareholders.

Sir Purshotamdas Thakurdas: To that I will say that no genuine shareholder who, from the point of view of the bank's advance, wanted to do it had any difficulty; but there have been people in this country, cantankerous fellows who get up and say things more for the sake of harrassing the authorities of a bank than for anything else.

Dr. Trip: Especially with the object of getting to the Board of Management.

Sir Purshotamdas Thakurdas: All I am concerned with is that it would be difficult for us to make a recommendation in the terms of your proposal (*d*). The Bombay Shareholders' Association in paragraph 14 (8) of their memorandum said:

> "The present practice of giving seven days' notice of general meetings makes it impossible for shareholders to inspect the share register, to obtain proxies and otherwise take effective action at meetings. The share register being generally closed during the interval between the balance sheet and the meeting, its inspection is not possible under the law. No doubt the bank will give a list of shareholders, but that means delay which in the case of big banks is very great. . . ."

It all refers to the share register and not to account books.

Dr. Trip: Reference is made to it in paragraph 100 of the sub-committee's report on the Regulation of Banking.

Sir Purshotamdas Thakurdas: That again refers to share registers, and not to inspection of books and accounts or checking the balance sheet. I have not heard any general grievance about the examination of the balance sheet. I do not know if any shareholder goes to a bank with the intention of examining the balance sheet. The audited balance sheet, together with the profit and loss account and the Directors' report, is circulated within a certain period before the date of the general meeting in accordance with, not the Articles of Association, but the Companies Act.

Lala Harkishen Lal: There is another proposal under (*h*), "restriction of the power of a bank's directors to refuse to register shares". This is very rarely acted up to, but it is one of the articles that appears in Table A of the Companies Act.

Dr. Trip: I understand that this power is abused by the directors.

Lala Harkishen Lal: We have not had any case in court, so far as I know, that this power has been abused in India.

Sir Purshotamdas Thakurdas: I suppose Dr. Trip is referring to what came before us in evidence in connection with the Bombay Shareholders' Association.

Lala Harkishen Lal: They wanted facilities for transactions.

Sir Purshotamdas Thakurdas: They also wanted that the right vested in the directors of refusing to register the shares of certain people should be modified.

Lala Harkishen Lal: Brokers want to have the power to transact business. In some cases the directors claim discretion and say that they have to look at things from the management and administration points of view. Therefore, I feel that the Articles of Association should either specify the discretion to the directors in a certain way or leave in general.

Dr. Trip: The proposal of the Shareholders' Association was that the power even to refuse registration in the case of fully paid shares should be abolished.

Lala Harkishen Lal: Whether fully paid shares or not, brokers will look at it from their point of view and directors from their point of view. If a man applies to my bank for transfer of shares, it is true that there may be some who say "let him not be a shareholder", but generally it is in the interests of the directors to have as large a clientele as possible. Leaving that aside, what would you do in the case of cornering? Supposing 75 per cent. want the shares to be transferred, what are the directors to do? Are they simply to transfer them, because the brokers want it to be done?

Dr. Trip: To a certain extent this is mixing up two things. If they are deposited beforehand, they must be deposited with the company before a certain time.

Lala Harkishen Lal: If they are deposited, then the shares may stand in another name and the shares are not transferred by bearer deposit. It comes to the same thing.

Dr. Trip: That is a question of the closing of books.

Lala Harkishen Lal: Unless the bearer deposits, it is no good: he does not require new registration and therefore the broker's object is gained. It is quite a different matter.

Dr. Trip: It is not merely a question of proxy. The man is entitled to sell or buy his share.

Lala Hrkishen Lal: This reservation in favour of the directors is made to avoid the shares passing out into the hands of opponents and competitors. Either it ought to be left as it is, or if it is to be more restricted, the conditions under which the restriction has to act ought to be specified.

Mr. Rushforth: The point made by the Calcutta Stock Exchange in this connection was:

> "There have been instances of refusal to transfer shares out of the name of a person indebted to a company on the ground that the company had a lien on the shares. That, however, is not exactly an abuse of the power of the directors, unless it is exercised against a third party who is the *bona fide* purchaser against value....."

Lala Harkishen Lal: If the lien has been created already and the seller knows that the lien is there and he is indebted, he goes to sell why should he be prevented?

Sir Purshotamdas Thakurdas: I do not think it can be got over.

Lala Harkishen Lal: Unless there are certain specific conditions laid down. "The authority to refuse transfer", these are the words. Some people interpret it in the way that monopoly should not be created.

Dr. Trip: I gathered during our conversations for the last few days that you, Lalaji, are against discrimination.

Lala Harkishen Lal: That is so, but if I am asked to accept a bribe I should certainly make a discrimination.

You want that three associations should be provided and the apex association should be brought about by convention and not by law.

Mr. Currie: That is so.

Mr. Lamond: You have suggested that the indigenous bankers should become members of the Central banking association. Have you any suggestion to make with regard to the rules on the point?

Mr. Currie: I think it is a matter more for the Association to decide and how far an agreement could be arrived upon.

Dr. Trip: Indigenous bankers in the first instance should make their own association, should give up their trading functions and restrict their business to banking and should lay down rules in their association with regard to the publication of balance sheets and profit and loss accounts. All these things should be decided upon by the Indigenous bankers' association.

Mr. Lamond: You mean so long as these rules are agreeable to the Reserve Bank?

Dr. Trip: Certainly.

Mr. Lamond: You say that the form of the balance sheet and profit and loss account of the Joint Stock Banks should be left to the control of the Board of Directors and the supervision of the auditors. I am afraid specific rules must be laid down in regard to this matter.

Mr. Currie: This was put down in order to raise the argument that it is sometimes more dangerous to deal too specifically with balance sheets.

Mr. Lamond: I quite agree but the general public feel that the balance sheets do not always show the true position and they want a balance sheet which they can understand. I feel I cannot agree with your suggestion.

Dr. Trip: We can very well leave it to the directors and the auditors to deal with the matter.

Mr. Lamond: People generally contend that the present form is faulty. I agree that you must not legislate too much but at the same time you must show a balance sheet which will command the confidence of the public.

Mr. Currie: When you in the balance sheet show bad and doubtful debts on the side and show a corresponding reserve on the other then it may create a wrong impression in the minds of the public, I think.

Mr. Lamond: I am certainly with you in that respect. I am against showing the bad and doubtful debts and the corresponding reserve in the balance sheet.

Lala Harkishen Lal: I have read in banking journals that such and such demands of the public have been met by the bank concerned and so on.

Sir Purshotamdas Thakurdas: But is the investing public in this country so well educated to understand these technicalities as they are in England or other countries?

Dr. Hyder: I think even in England there was a demand for the productions of uniform balance sheets giving more information.

Lala Harkishen Lal: But you do not look at it from the banking point of view and what other people have felt in other countries. The balance sheets published by the Imperial Bank of India and the Bank of England give absolutely the minimum details which are necessary for public edification. The general practice is for the Chairman of these Banks to make a speech in presenting the balance sheets which will give further information required by the public at large interested in the bank.

Dr. Hyder: I understand that there was a demand in Germany for more information being made available in the balance sheet so as to show the true position of commercial banking.

Mr. MacDougall: Is it to the advantage of business that balance sheets are literally followed as given in the Indian Companies Act. I do fairly detailed balance sheets. In some cases you will simply be giving extremely valuable information which will help your opponent's trade.

Dr. Hyder: If the balance sheets are prescribed to be drawn up in a particular form then your difficulty could be got over and there would be no objection.

Mr. Lamond: Without going into the question of detail, we are now only on the question of uniformity.

Lala Harkishen Lal: So far as India is concerned, there is more uniformity than in other countries, provided the form of the balance sheets are literally followed as given in the Indian Companies Act. I do not know exactly what change you are advocating in the balance sheet.

Mr. Ramdas Pantulu: The following appears in the Memorandum approved by the sub-committee on "Banking Regulation" in para. 76 which reads:—"There appears to be a general demand that balance sheets should contain more information than what is embodied therein at present. Form F of the balance sheet prescribed by the Indian Companies Act is not considered comprehensive enough and it is suggested

that the manner in which accounts are drawn up at present leaves much to be desired because even those who are conversant with account-keeping are unable in many cases to gauge from the balance sheets the actual position of a bank concerning assets and liabilities. This, it is urged, is one of the reasons why many people hesitate to rely upon balance sheets of banking institutions". May I know whether the experts are agreed with the view that more information should be given in the balance sheets?

Mr. Currie: We do not think that any further information need be given in the balance sheets.

Mr. Lamond: One of the chief functions under the Canadian Bank Act is the establishment and control of Bankers' Clearing Houses. I admit this is a very useful function. As for this country Clearing Houses are of recent growth and their rules have been more or less drawn on the lines of Clearing Houses that are in existence in Liverpool, Birmingham and other places in Britain. Do you not agree that the rules of these Clearing Associations in this country should be based more or less uniformly and one Clearing Association formed for the whole of India?

Mr. Cassels: I agree that it will be better to have one Clearing Association for all India.

Mr. Buckley: The question of advancing against shares under blank transfers was taken up by Government some time ago and was referred to the various Chambers of Commerce for opinion on the ground that Government were under an impression that banks did a very large business in this particular line. As far as the Exchange Banks are concerned at least the larger and the older ones do not as a rule advance against shares under blank transfer, in the first place for the reason that the shares with blank transfers attached are practically bearer scrip and therefore it is a question of safeguard and secondly, we do not encourage overdrafts against speculation in shares. I want to raise a discussion on this point with a view to making a recommendation that it is illegal to carry shares on blank transfers.

Lala Harkishen Lal: Why don't you say that the stamp duty should be reduced? Then this difficulty could be got over.

Sir Purshotamdas Thakurdas: So far as the experts are concerned, they say that the practice in their countries is to have bearer scrip which is not the case in this country. We have got, therefore, to decide among ourselves the point after looking into the practice in this country. I do not think we need discuss this point with the experts.

Mr. Currie: It refers to all joint stock companies and not only banks.

Mr. Buckley: I would like to raise another point which is not before us. I understand, Dr. Friederich, in Germany about a year ago you passed a law that post dated cheques could be paid on presentation without any penalty.

Dr. Friederich: That is so. It was really a custom with many people in our country to issue cheques post dated. To make the banker's responsibility shorter and to make it easier we passed a law that post dated cheques should be paid at the counter on presentation.

Mr. Buckley: We consider it not quite honourable to issue post-dated cheques. The reason for issuing them is not far to seek, *viz.*, on the day the cheque is issued the drawer has no cover at the bank but expects some money to be put to his credit on a future date. In this country the position is that if a bank pays by oversight a post dated cheque it is held liable.

Mr. Cassels: The position in other countries is exactly as Mr. Buckley has just said that the bank is liable if it pays before the due date marked on a cheque. We, however, consider it quite honourable to issue post dated cheques. As a matter of fact, I myself have done so.

Mr. MacDougall: In commercial circles it is the general practice to release the goods only on receipt of a cheque from the customer and that being so post-dated cheques are commonly in vogue.

Mr. Buckley: Why should a bank be penalised for cashing a cheque by oversight when presented before the due date?

Mr. MacDougall: If the bank commits a mistake then it must accept responsibility.

Dr. Friederich: Such post-dated cheques if issued without cover at the bank will be considered a fraud in our country. And so the real effect of the law which was recently passed is really for the good of the people.

Mr. Cassels: Supposing you had some one who owes you money and he gives you a post-dated cheque. You have that document on which to sue him in case of accident. It is useful in that respect.

Mr. Buckley: The man may have the money in the bank but the bank in the ordinary course of business may pay through an oversight.

Mr. Devadhar: The percentage of such post-dated cheques is quite small. Why do you want to deprive the people of this great facility?

Mr. Buckley: I do not wish to deprive people of that facility at all. I do not wish to prohibit people giving post-dated cheques. What I say is: if a bank by oversight pays a post-dated cheque before the date of the cheque it should not be liable.

Mr. Rushforth: Mr. Currie, you were discussing with Mr. Pantulu the question of the Imperial Bank opening branches. We have asked most of the banking witnesses who have been before us if there have been any cases where they have had to close down branches because of this competition and I think that the reply has been in the negative. I should rather like to have your opinion on these statements which have been made by the Allahabad Bank. The first one is regarding the effect of the opening of branches by the Imperial Bank on Indian joint-stock branches. They say it has been detrimental to the existing branches in the various centres where the Imperial Bank opened branches. They further state that it is easier to build up a business by attracting customers away from an established bank by the offer of lower rates than by pioneer banking in an entirely undeveloped district, and that the risk of such intrusions of which they have had experience must act as a deterrent against a policy of branch development on the part of the indigenous banks. Do you think that anything calls for consideration in either of those statements?

Mr. Currie: As regards the Imperial Bank or the Reserve Bank.

Mr. Rushforth: The branch activities of the Imperial Bank. I gather that you are in favour of unrestricted competition and you do not consider the fact that the Imperial Bank might go to places and take away

accounts which belong to other branches by virtue of its being a Government bank?

Mr. Currie: Well in future we do not consider that the Imperial Bank will have all those Government funds because it will not be the Reserve Bank.

Dr. Trip: Do you think that one of these deposits would not have been transferred to the Imperial Bank if they had not had these Government balances?

Mr. Rushforth: That is evidently the suggestion here.

Dr. Trip: I do not believe that. I think it is due to the good name of the Imperial Bank.

Mr. Rushforth: I do not read it like that at all. I just wanted to bring that point to your notice. The only other thing that I wanted to mention was another point on the protection of banks. Suggestions have been made on the lines of the Leeman's Act in England that in the transfer of shares on the Stock Exchange the number should be given. Banks have suffered in India through these bear raids on bank shares. Another suggestion was that transaction on bank shares should be for cash delivery only and forward transactions should not be allowed.

Mr. Currie: Are there a great many forward transactions being transacted?

Mr. Rushforth: I could not tell you at the moment. From time to time there have been and there is nothing to prevent them.

Mr. Lamond: The Bombay Stock-Exchange have stopped them temporarily.

Mr. Rushforth: It is a question whether you think anything should be done to prevent these bear transactions on the Stock Exchange in respect of bank shares in the Indian banks?

Mr. Cassels: The matter is covered if the seller has to give the number of the shares.

Mr. Rushforth: Would you be in favour of a regulation somewhat on these lines?

Mr. Currie: Yes.

Dr. Trip: What is the harm that is experienced in the banks. If you have bearer shares as we have in Holland, what is the difference between the bearer shares and these suggested shares?

Mr. Cassels: The reason is if the seller has to give the number of the shares he is selling he cannot sell a bear.

Mr. Lamond: He need not give the numbers until the date of delivery.

Mr. Cassels: He is supposed to give the numbers when he makes the sale.

Mr. Currie: That does not cover your forward dealing.

Mr. Cassels: It covers shortage. If the stockbroker goes into the market and sells bank shares he must know what shares he is going to deliver and if he does not have the shares he cannot give the numbers, which shows that he has not got the shares.

Mr. Rushforth: Dr. Trip does not seem to be in favour of any such restriction.

Dr. Trip: I am not in favour.

Mr. Currie: I do not see that the restriction is going to be very much needed. I think that the selling of a large quantity of bear shares of a bank would be a very dangerous proceeding.

Mr. Cassels: It would not be a dangerous proceeding, it would be a very deplorable one for the standing of the bank.

Mr. Rushforth: It was very noticeable on two occasions in India. It was really those occasions which brought the question up, and something ought to be done to stop it.

Dr. Trip: Do you not have that with regard to all kinds of shares? I am not much in favour of stopping even speculation. Speculation can have a very useful effect.

Mr. Currie: The point is that speculation affects the credit of a bank very much more than any other concern. I can see no objection to demanding the numbers of the shares.

Mr. Rushforth: I think the less restrictions, the better, but if in special Indian circumstances they are going to be advantageous I think we ought to be prepared to introduce them.

Dr. Trip: We have never experienced such a case in Holland.

Mr. Rushforth: At any rate you would have no definite objection to it?

Mr. Cassels: Do you foresee any hardship on the point of preventing a man from selling bank shares?

Mr. Rushforth: I see none myself except from the point of view of the bank.

Mr. Cassels: The fact that the bank is a quasi-public body is sufficient to safeguard attack in the stock market which would not only depreciate the value of those shares but would have a very serious effect on the entire market and on the standing of the bank.

Mr. Rushforth: For instance only about 3 days ago the "Statesman" had a leaderette on the bear raid on the Imperial Bank shares. I do not know if it was inspired or not but at any rate the fact called for comment in one of the leading newspapers.

Mr. Cassels: The inference being that somebody was selling the shares who did not own them. That happens with every stock. It is all right with ordinary stock, it is only a question of whether the bank should not be protected. Therefore I would be rather in favour.

Mr. Devadhar: On page 2 you have 5 divisions, the various proposals for consideration. Under No. (i) "Those which would hamper free competition and the development of banking and which ought not to be adopted". Are we to understand that you would certainly not be in favour of restriction with regard to 10 and 11?

Mr. Currie: The first is rather a special subject and we do not deal with that very much here.

Mr. Devadhar: You have simply grouped 5 divisions and I should like to know whether the first group also applies to Nos. 10 and 11.

Mr. Currie: No. 10 is already more or less covered by the operations of this business of Co-operative banks by special legislation.

Mr. Devadhar: We are to take it that you would not be in favour of restricting the business of Co-operative Banks too?

Mr. Currie: No.

Dr. Friederich: It is not clear what is meant by Co-operative banking. Of course Co-operative Banks may have co-operative banking because the Co-operative Banks are always for the members with regard to credits. Of course I should be against any restriction in case it is meant that the Co-operative Societies should not be allowed to take deposits from non-members.

Dr. Trip: The question of Co-operative banking is a special question, so when we came in this memorandum to banking legislation we thought it wise to leave the co-operative banking outside our purview.

Mr. Sarker: Can you give us an idea of the note issues and other liabilities of the principal banks in Canada? I just want a rough idea.

Mr. Cassels: I think I could get it for you. I could tell you pretty well that the total note issue in Canada up to 30th September last was 163 million dollars. All the other liabilities are on other sections.

Mr. Sarker: Item 43, you say if that provision is made then there will be competition in the development of banking. In Canadian Banks have the Managing Directors to be Canadians?

Mr. Cassels: The majority. I think the Act reads "the majority of Directors must be naturalised subjects of His Majesty domiciled in Canada".

Mr. Sarker: If we make a provision like that would that hamper the growth of our banking?

Mr. Cassels: It might. When this provision was made in Canada all the Directors of the banks at that time came under this category. There was nobody left out, so that there were no distinctions to be made. It was perfectly easy for the few banks to get together and lay that down as law. But any new bank coming into the country has to abide by these regulations.

Mr. Sarker: If a similar provision is made here would that . . . .

Mr. Cassels: What can you do about the foreign exchange banks?

Mr. Sarker: You say the new banks must conform to these regulations. Do you think that for the development of our country more foreign banks are necessary?

Dr. Trip: I do not say that. I do not think it would be wise to interfere with the present conditions of the country, and the present conditions of the country are very well served with regard to foreign trade by the existing foreign exchange banks. As a consequence of that opinion we left out this provision because we think it would do harm to the banking position of the country.

Mr. Sarker: I am talking of the future.

Dr. Trip: I cannot see that there would be much harm if you wanted such a provision for new banks being established in this country. We took it that this provision would also apply to the present state of affairs.

Mr. Sarker: On page 4 of your memorandum you say the form of the balance sheet and profit and loss account should be left to the discretion of the Board of Directors and the Auditors.

Mr. Currie: That we have already discussed with Mr. Lamond.

Sir Purshotamdas Thakurdas: I have two or three questions on which I would like some information.

Sir Purshotamdas Thakurdas: Paragraph 142 of office note on Banking Regulation. The suggestion is made here that depositors of non-Indian banks working here with their head offices outside India should be protected. Is any such protection given in any of the countries represented here?

Mr. Currie: It is not so in England.

Dr. Friederich: Not in Germany.

Mr. Cassels: Canada has no foreign banks.

Dr. Trip: There is a big German bank in Holland which has not been formed under Dutch law. We make such provisions with regard to insurance business, not with regard to banks.

Sir Purshotamdas Thakurdas: Bearing in mind your recommendation that foreign banks should not be disturbed, and the fact that the affairs of foreign banks are not known in India as accurately as they would be if they had their head offices in India, do you not think that the demand that in case of liquidation their Indian assets should be reserved for Indian creditors is a reasonable one? Or would you consider such a provision by statute unreasonable?

Dr. Trip: I must say we did not discuss the point, but my personal view is that although on principle it would not be unreasonable, it would not be wise to do it. For, if every country where a foreign bank is working did the same, it would have to split up its assets against its liabilities in several countries, and the position of the whole institution, and perhaps of all the creditors would be weakened.

Sir Purshotamdas Thakurdas: I have been seeking information as to whether there is any other country in which foreign banks work with local deposits to the extent they do in India, and I still have not got anybody to tell me that there is another such country.

Dr. Trip: Apart from Dutch East Indies.

Sir Purshotamdas Thakurdas: What is the proportion of indigenous deposits in foreign banks in Dutch East Indies?

Dr. Trip: I could not give you at the moment. I will try to get you the information.

Sir Purshotamdas Thakurdas: In India the position is roughly: foreign banks, 70 crores; indigenous banks, 70 crores; and the Imperial Bank, 70 crores.

Lala Harkishen Lal: Indigenous banks, only 62 crores. It is less than one-third.

Sir Purshotamdas Thakurdas: It is roughly one-third. The whole point is that foreign banks have more than one-third. I know your opinion that they should not be disturbed. Surely the Indian tax-payer must have some statutory protection in case of any of them going down. We had one case two years back.

Mr. Lamond: There was no loss in that case.

Sir Purshotamdas Thakurdas: India is the only country where foreign banks work with capital obtained locally. There is no other country approaching it. I wonder whether you are disposed to see the demand for protection from the Indian point of view. If you must allow these banks to work with local deposits, in case of a failure, the Indian assets should be reserved for Indian creditors. Whether it is feasible or not or to what extent it is feasible is a different thing, I cannot see, as Dr. Trip does, it would be unwise: it would be only fair to the Indian taxpayer that Government should ensure this to the extent they can.

Dr. Trip: Banks in a country are of such great importance to the whole economic structure of the country. The experience of Europe has been that if a bank gets into difficulties Government has to step in to help it. I am absolutely convinced that in the case you referred to, if Government had not stepped in, there would have been losses. Even if you had a provision in the legislation in this country reserving the assets, what are these assets? Especially those of foreign exchange banks are only bills that travel from here to all parts of the world.

Sir Purshotamdas Thakurdas: Whatever they may be—they may be local inland bills in the portfolio, cash on hand. I know of one case where the manager did not know the previous evening that he would have to close down his branch the following morning. The position of the local branch was quite solvent. Would you consider it unfair on the part of the Indian legislature to secure the position of the local depositors?

Dr. Trip: I feel that it would raise very great practical difficulties. In the case of insurance companies it is done by compelling them to give securities. The operations of foreign exchange banks involve very large amounts and I think such a provision would hamper possibilities. Some foreign exchange banks may even say that they would prefer not to work in this country, and I do not know whether it would be to the good of the country.

Sir Purshotamdas Thakurdas: Witnesses before the Committee have stated that foreign exchange banks should be required to deposit, with provincial Governments, securities of the market value of Rs. 5 lakhs in respect of every office in each province on the parallel of insurance companies. There is very strong feeling, and I personally feel after having heard the witnesses and your own view that you cannot indicate any form of protection even in case of liquidation, that it is a little hard that the Indian investor cannot have any such protection to the extent possible. Foreign banks may have no assets here in which case of course heaven will have to help the depositors. But if they have assets in India why should the Indian Government allow them to go into the common pool out of which probably they will get only one penny?

Mr. Currie: If you are to attach the Indian assets of an existing bank you will have to give up your claim on other assets.

Sir Purshotamdas Thakurdas: That is true. After all the law of the land rules supreme.

Mr. Currie: In England a creditor would not have any claim on the other assets of the company or the surplus if he attached the assets pledged to him.

Mr. Sarker: To the extent of security you get the full value, and for the portion unsecured you get a share along with other creditors.

Mr. Currie: I do not think he can get it.

Mr. Sarker: In India it is the case.

Mr. Cassels: The practice in England is that if a bank has securities for advances made to an insolvent, it has the option either to hand over the securities to the liquidator and take its chance with the general body of creditors or use them to liquidate the advances.

Lala Harkishen Lal: English law about securities is not the same as the Indian law. In England they have to make a choice, but here we say in our agreements that if the money is not realised out of the security, the balance will come for its share in the general assets. The form of agreement is different.

Mr. Cassels: In case of liquidation of a company all the creditors receive a circular letter from the liquidator giving them the option of retaining the securities they have with them or handing them over for a share in the general pool.

Sir Purshotamdas Thakurdas: If any such legislation was passed, do I understand that it is your opinion that it would make the Indian market less attractive for these banks to work here, or would it hit the clientele of these banks here?

Mr. Cassels: I think it would be disadvantageous to the country as a whole. It might induce foreign banks not to come here in future and to arrange to withdraw support to foreign trade at the present time. They might say in the face of these provisions our only protection will be to form an Indian company with a small capital and lower our liability. The effect would be a bad one so far as security for depositors is concerned.

Mr. Currie: In any case you might assume that it would tend to make foreign exchange banks keep as much money out of the country as they could.

Sir Purshotamdas Thakurdas: Protection of banks from unjust attacks, para. 148. As you might have noticed there are two distinct views. Some joint stock banks think that law should give them protection from such attacks. One share-holders' association feels that no such protection should be granted. The accentuated form in which this difference has developed in the last few years, I believe, must be considered as somewhat exceptional to India and perhaps to Bombay. I wonder if you have acquainted yourself with this somewhat novel trouble of ours and if you have any views regarding para. 148.

Dr. Trip: That point was dealt with in Mr. MacDonald's evidence. He was absolutely right in his position that in the interests of the banks themselves it would be more dangerous to do that than to leave things as they are now.

Sir Purshotamdas Thakurdas: In connection with that I thought I would tell you the other side of the position. Share-holders who do not get adequate credit put questions at the general body meeting, challenge the balance sheets, and so on and so forth. In the case of Police Court prosecutions auditors are put in the witness box and examined days after days. Simultaneously an attempt is made to narrow down the shares in

the stock exchange. On the whole they succeed in creating want of confidence. The Indian investor is sensitive and any vague rumour set afloat upsets him. It has been suggested that some organisation should be available against such truculent shareholders and such efforts. Is there anything like that in any of the countries?

Mr. Currie: I have not heard.

Dr. Trip: My impression is we had similar cases. I am convinced you can never prevent such things by legislation. The only thing that was done was a declaration by the Reserve Bank that the Bank was quite sound.

Mr. Cassels: I remember only one case. It started really as a matter of blackmail, which was refused. No legal restrictions could have any effect.

Dr. Friederich: No legal restrictions in Germany.

Dr. Trip: If you have a reserve bank in the country they can make a statement about the real state of affairs. That is the only useful thing I can think of.

Mr. Ramdas Pantulu: There are two concrete instances from other countries. Legislation to prevent vexatious complaints on the lines of the English Vexatious Indictment Act and of the Costs in Criminal Cases Act has been recommended. That is really a protection.

Sir Purshotamdas Thakurdas: Para. 153 refers more to defamation.

Mr. Ramdas Pantulu: We can proceed criminally in case of vexatious complaints.

Sir Purshotamdas Thakurdas: It does not refer to banks alone. Before the suit was heard and the various details gone into the bank might probably be finished. I wish to ask a question regarding Appendix I of your memorandum. There you suggest that Indian banking should be organised into 3 voluntary associations, and on Mr. Ramdas Pantulu's suggestion you added a fourth, provincial co-operative banks. It strikes me very much, if I may say so, as a case of difference without distinction. Instead of dividing these four limbs of Indian banking into four compartments, why not have one association and let it work as one body where main questions are concerned and in sub-committees according to the requirements of various members. What is the difference you make between exchange banks and Indian joint stock banks?

Mr. Currie: I think that there will be no objection if both are in the same association.

Sir Purshotamdas Thakurdas: What is the distinction you make between indigenous bankers and these two classes of banks which you are prepared to amalgamate into one?

Mr. Currie: Indigenous bankers are partially bankers and partially traders. We thought, to begin with, a great many of the rules relating to joint stock banks would not be applicable to indigenous bankers, that if we started with one bankers' association it would exclude a great many of the indigenous bankers, and that therefore it would be better to have a separate indigenous bankers' association which could improve and modernise the practices of the indigenous banker and which would at the same time be in touch with the central bankers' association and through it with the other bankers' associations.

Sir Purshotamdas Thakurdas: Suppose we put down the qualifications of the indigenous banks fairly strictly, would you then object to their being amalgamated with the other two and made one association? We have not decided the details of it. Why I ask this question at the moment is the Indian financial world seems to be divided into two groups, one banks and the other bazaars. It is an uphill effort to bring them together, and even if you put them together now it will be 10 years or more before you will have a healthy unit in which they will all think and work. But if we bring them together this result will be achieved earlier than otherwise, and some of those annoying things which one hears may disappear. Do you see any objection in principle to all of them occupying the same association building, and having access to the committee room? They can of course divide themselves into various sub-committees and work out their own difficulties and secure facilities.

Mr. Currie: In principle I see no objection. My fear however was that by having only one association to start with great many people might be left out of it. I therefore wanted something between the Central Association and the more specialised ones in order to bring them all together eventually.

Dr. Trip: If the Central Association should only include as members those who are admitted by the Reserve Bank for grant of discount facilities, that would be a stimulus for all the members of all these associations to try and be admitted by the Reserve Bank. Now they can all be members of one association, but some will be members of the apex association.

Dr. Trip: In order to give an inducement to them to come into the apex association.

Sir Purshotamdas Thakurdas: My point was that you lay down certain ruling for membership of the apex association and leave it open without distinction, whether a man is an indigenous banker, a joint stock banker or an exchange banker. These distinctions must disappear, particularly because sentimentally they are very unwise. There is an inferiority complex brought on, whether it is intended or not. I am not concerned whether it is justified or not. It ought to go and everybody who works in the field of Indian finance and has some qualification as a chartered bank or national bank ought to have access to that particular institution. I fear therefore that the apex bank membership will have to be left open, irrespective of whether an exchange banker, indigenous banker or joint stock banker seeks admission.

Dr. Trip: That is our intention: the only doubt is whether he would have discount facilities with the Reserve Bank.

Sir Purshotamdas Thakurdas: If the indigenous banker has that facility, he shall be a member of the apex association. Why then do you want various special associations?

Dr. Trip: We think that these associations could do very useful work in laying down rules for their members to adopt and these rules should be specially adaptable by indigenous bankers, but as soon as an indigenous banker is admitted by the Reserve bank, then he becomes a member of the apex association.

Mr. Currie: On page 2 of our note, sub-section (iii) of the objects of certain proposals, we have made it clear that the power of the Reserve bank should be enhanced with the specific idea that no superiority complex should prevent any eligible bank from attaining the right of joining in the Central Banking Association.

Sir Purshotamdas Thakurdas: Your scheme therefore does not necessarily contemplate keeping the various members interested in these groups separate?

Mr. Currie: No.

Dr. Trip: Our ideal would be that all the members of the separate associations would be members of the apex association too.

Sir Purshotamdas Thakurdas: Or, the apex association may have all these associations and they may work as sub-committees according to requirements. The less you have big associations the better. If you have a number of Banking Associations, you will have the grievance that they are not getting adequate facilities, so that the whole can be made into one group.

Dr. Trip: That would not be practicable especially in the beginning.

Sir Purshotamdas Thakurdas: What is it that you think would not be practicable?

Mr. Currie: Some of the indigenous bankers are now very small and they are doing business which is outside the scope of banking.

Sir Purshotamdas Thakurdas: Assuming that there are a number of small banks, there would be at least 25 or 50 big enough for any purpose. Would you not let those come into that common group?

Mr. Currie: Certainly.

Sir Purshotamdas Thakurdas: If you begin with them instead of thinking about the small banks, I think it would help the matter.

Mr. Currie: But there would be some bankers who would be left out in the cold.

Sir Purshotamdas Thakurdas: They will look after themselves and form into an association and make themselves heard. But if you keep them in separate groups and then say that they can come into the apex bank once or twice a year and put forward their grievances, that would not be satisfactory.

Mr. Currie: That was not our idea.

Sir Purshotamdas Thakurdas: That is how it struck me. I shall read out to you the marginal note which I made as I read your memorandum: "one body with sub-committees to deal with details of the special difficulties and facilities. Why have three?"

Dr. Trip: Because we think that there may be indigenous bankers, especially in the beginning, who would restrict their business to banking and who may be prepared to follow the regulations of their Association; but they are too small to be admitted by the Reserve bank for rediscounting facilities. It would be advisable to bring them together, but still they should be given inducement to become a member of the apex association by being admitted by the Reserve bank.

Sir Purshotamdas Thakurdas: If the indigenous bank and the Indian joint stock bank prefer it, the Central bank would be open to them, so that the various interests could work together in a common association. You see no objection to it?

Dr. Trip: Does that mean that you will have the condition that the discounting facilities from the Reserve bank would lapse?

Sir Purshotamdas Thakurdas: Why should it lapse?

Dr. Trip: I do not see how you conclude from what we have said that the apex association would be closed to certain groups of banks.

Sir Purshotamdas Thakurdas: That is the impression I got. I may be wrong.

Dr. Trip: I only asked to make the point clear. We never had that impression.

Sir Purshotamdas Thakurdas: All I can say is that I do not understand it in the sense that you meant it.

Dr. Trip: It may be my fault.

Dr. Hyder: There is one point about which I am not quite clear. Supposing there were not many associations, but only one simple body, that would mean that everybody who is a member of the Central Association would have the right to have their bills re-discounted. I do not know if you would give some discretion to the Reserve bank to pick and choose or say that every member as a member of the Association should have that right.

Mr. Currie: We would give the determining voice to the Reserve bank.

Dr. Hyder: In my opinion you must leave the discretion as to whose bills they are going to re-discount with the Reserve bank. If any suggestion relating to a particular bank came up for discussion and if it was a member of the Central Association, the Reserve bank would say that the bank was a member of the Association and that their bills would be re-discounted.

Sir Purshotamdas Thakurdas: I looked at the question this way: The Reserve bank would lay down certain minimum qualifications for those whose bills it would re-discount. I do not think the bank can be allowed to pick and choose. A certain limit will be fixed, Rs. 50,000, one lakh, 5 lakhs or 10 lakhs. Banks having a certain capital and acting up to certain requirements of the Reserve bank will have their bills re-discounted.

Mr. Currie: It is usually the case with Central banks which have been working for some years.

Sir Purshotamdas Thakurdas: There will be known qualifications which would be known to everybody and banks and persons who want to aspire to it would work up to it. Having done that, all those whose bills are re-discounted would *ipso facto* be eligible to become members of the apex association, whether indigenous bankers, or joint stock bankers or Exchange banks. Then the distinction goes.

Dr. Trip: I quite agree with your explanation of the question. My experience has been that the Reserve bank has always to keep its decision free, whether it is prepared to take the paper of a bank or not, and I do not think it even possible for a Reserve bank to lay down the rules to which they should be bound, and on the basis of which they may say, "we prefer not to take so much paper of that man and so much from another man who has the same capital."

Sir Purshotamdas Thakurdas: What you mean is this: after having taken A to M as persons whose paper they will discount, J may have incurred a loss or his position may have deteriorated that his credit may be reduced from 5 lakhs to one lakh for re-discount purposes. Even then the Reserve bank would not disable him by not re-discounting his paper to the extent of at least a lakh?

Mr. Currie: No.

Sir Purshotamdas Thakurdas: My credit may be five lakhs, I may have lost my money and reduced my credit to half a lakh, but I am still on the Imperial Bank list, and as long as I am on it, I am *ipso facto* eligible for membership. What I want to make clear is that there would be a common point where all, irrespective of their race or their avocation, would be eligible for membership. Is that your idea?

Mr. Currie: Yes.

Sir Purshotamdas Thakurdas: Does that meet your point, Dr. Hyder?

Dr. Hyder: It comes to the same thing whether you begin from the top or from the bottom, and it centres round the limit of the extent of re-discount facilities available. If a man is a member of the Central Bankers' Association, he must give to the Central Bank the right to determine the amount.

Sir Purshotamdas Thakurdas: That does not matter. We are both members of the apex and we should be eligible to become members.

Dr. Hyder: Suppose, of the members of the Central Association, 45 are indigenous bankers; out of these 45, the Reserve bank will say that the paper of about 30 is good; regarding the others the limit may be from 5 to 1. They are still members of the Central Bankers' Association.

Sir Purshotamdas Thakurdas: How can they be?

Dr. Trip: They can only become members of the Association after they have been admitted by the Reserve bank.

Dr. Hyder: If we started from the other end, there would only be one Central Bankers' Association which would lay down standards and rules and there would be no doubt in the mind of the Reserve bank regarding the remaining 15, in spite of their being members of the Central Association. The remaining would say: "We are small people but we must have an Association of our own. That is how it appears to me. Let us bring ourselves to the level of the standards set by the Reserve Bank. We shall then be entitled to the privileges granted by the Reserve Bank regarding re-discount facilities."

Sir Purshotamdas Thakurdas: You look at it from one point of view; it struck me from the other point of view. I feel that what would either appeal to, or if I may use the word, annoy the indigenous banker or the local joint stock banker, is these water-tight compartments and I personally feel that it would be unfortunate to perpetuate them if we can avoid it.

Mr. Buckley: I agree with you. Inasmuch as the Chambers of Commerce have various interests and these interests are all regulated and looked after by sub-committees, it seems to me that the banks may have one Association and a sub-committee of indigenous bankers, and a sub-committee of joint stock bankers, etc. Up to now, there has not been any contact between the various bankers in the country and I feel that if we had separate associations we would not progress very much further. I think therefore that we should have one Association and sub-committees to run each section. Because a bank is a member of the Central Bankers' Association, I do not see that it should expect the Reserve bank to take its paper.

Dr. Trip: It can only be a member after it has been admitted by the Reserve bank.

Mr. Buckley: Suppose a banker becomes a member after his paper has been taken and then something happens and his paper is no longer taken, has he to resign his membership?

Dr. Trip: Yes.

Sir Purshotamdas Thakurdas: There are various ways in which it can be. Full members of the Central Banking Association and Associate members. A cautious banker would not care to be a full member seeing that the Reserve bank does not discount his paper after five years and he would suffer prestige; therefore he would content himself with being an associate member and taking part in the Association without the right of voting. I want them all to be brought together and let them see each other in close quarters and you may find that it would keep things steady sooner.

Dr. Trip: In order to fulfil what you have in mind with regard to indigenous banking, do you not think that they ought to have separate Associations to make rules and to make their members comply with those rules? Even if you have a general Association you ought to have a separate Association of the indigenous bankers.

Sir Purshotamdas Thakurdas: I think that if a few of them, the top lights, were in the main body, they would perhaps build up the Association much sooner. That is what I am expecting, I may be wrong. All I wanted to get at from you was whether you really want to perpetuate separate Associations. If it is feasible to put them in a common form, would you welcome it?

Dr. Trip: Yes.

Dr. Hyder: As regards the superiority complex point of view, I think that can be got over if you come within the Central Bankers' Association. Secondly, you must give full discretion to the Reserve bank to discount the papers of individual banks.

Dr. Trip: Absolutely I agree.

Mr. Ramdas Pantulu: Under your "proposals relative to subjects that ought to be left to the control of the Board of Directors and the supervision of Auditors", you have (*a*) provision for adequate cash reserves. No question was asked on this matter, but a good deal of the time of the Banking Enquiry Committee was taken up on the subject and some of the witnesses said that some kind of standard should be fixed. I only want to know whether in other countries any regulations of a binding character exist or whether these are left to the Directors in each case. In paragraphs 73 and 74 of the office note, certain suggestions have been made in this regard. Have they any parallel in the banking system of any other country by way of regulations?

Dr. Trip: In my country there are proper regulations for the allocation of profits in the Articles of Association. In all cases the shareholders have the right to reserve more than is provided.

Mr. Ramdas Pantulu: I was thinking of the cash reserves to meet the depositors' and the creditors' claims. It has been suggested that 15 or 20 per cent. of free cash or Government securities must be always reserved as a matter of safety to the investing public and there has been varying opinion in the matter. Apart from what you keep with the Reserve bank, do you consider it necessary for joint stock banks to keep certain reserves either as cash or liquid?

Dr. Trip: In my country cash reserves are left entirely to the bank itself. Banks are not compelled to keep even cash balances with the Reserve bank. They are absolutely free. I should not be in favour of keeping cash balances in Government security.

Mr. Ramdas Pantulu: With regard to co-operative banks?

Dr. Friederich: I have no information with regard to cash balances, but with regard to reserve funds.

25th February 1931.

The Committee discussed this morning with Dr. L. J. A. Trip the question of the Reserve Bank having two rates for bills, one for re-discounting for member banks and one for discounting for the public.

Chairman: The first point on which we want to consult you is this: You remember that at one stage there were some discussions between you and Mr. Manu Subedar as to whether, in order to develop the bill habit in India, the Reserve Bank should not offer special facilities in a particular direction, namely, the rediscounting of bills of member banks at a lower rate of interest than the bank rate. We were trying to examine that point yesterday. It appears from the Kemmerer Committee report that the same remedy was put forward before them in South Africa and apparently they did not think it fit to make any recommendation in that direction; on the contrary, the Managing Governor of the South African Bank said that he was taking the opposite course, namely, that he was giving a lower rate of interest to bills bought by him in the open market, *i.e.*, from the public.

Dr. Trip: Perhaps it may clear up this point if I say that I have the opposite impression. I discussed the question with Mr. Manu Subedar and have looked it up again. I find that actually at the moment when the evidence was being taken, they did it in South Africa. I have before me the evidence of Mr. William Henry Clegg and Mr. Hendrik Christiaan Jorissen before the Kemmerer Committee. Professor Kemmerer asked:—

> "You have in the Reserve Bank a rate that you quote for re-discounting to the other banks, and you also have a rate which you quote to the public?"

The answer was 'yes'. Then there were the following questions and answers:—

> "Your present rate to the banks is what?—4 per cent.
>
> And your rate to the public?—5½.
>
> When a bank rediscounts with you at 4 per cent., what does it normally get from the public on the same grade paper?—I think you had better ask the banks that question."

Mr. Jorissen added the following reply:—

> "The banks also agreed two years ago to a 6 per cent. fine rate for discount. They quote that; at least they published that at the time. When the bank rate was first fixed, we met the banks, and we agreed on 6 per cent. for fine trade paper, and 6½ per cent. for fine agricultural paper."

So they had three rates: the Reserve Bank rediscount rate at 4 per cent., the discount rate of the Reserve Bank for the public at 5½ per cent., and the rate at which commercial banks discount the paper from the public, *viz.*, 6 per cent.

Lala Harkishen Lal: Mutually agreed?

Dr. Trip: Yes.

Mr. Devadhar: You said there was a separate rate for agricultural paper?

Dr. Trip: Yes, it was ½ per cent. higher.

Chairman: I want to draw your attention to questions Nos. 3247 and 3248: from my reading of these answers, it seems to me that they tried to do it, but found it had no effect and they took the opposite course?

Dr. Trip: It cannot have any effect if there are no bills, as was obviously the case in South Africa. If they tried to do the same thing in Java, it would have no success either, because there is no basis for a bill market there. I understand that in this country there is the possibility of a bill market. There is a custom of bills in any case and because there is a very great difference in the seasons, there is a strong inducement to create bills. In this country you have not only to build up the bill habit, but you have to build up also the acceptance habit. In order to build up the bill habit, the Reserve Bank has to give a lower rate for bills, but in order to build up the acceptance habit, it could consider the possibility of giving a lower rate to member banks and bankers who are the people who should develop themselves in the direction of acceptance business. You will remember that in answering Mr. Subedar I said that I did not think that I would advocate it as a standing rule for all time, but that in the beginning, after the Reserve Bank had started working, if it was of that opinion, an inducement could be given in that way in order to develop the habit of bills acceptances. I still think that it would be of some use.

Chairman: But it is not for the development of the bill habit?

Dr. Trip: The development of the bill habit would be aimed at by making the rate for bills to the banks and to the public a little lower than the normal cash credit rate.

Chairman: That we are providing for. Though the suggestion was made to Professor Kemmerer, the Committee did not put it in their report.

Dr. Trip: The position in this respect in South Africa and India is in my opinion fundamentally different, because there were only two banks in South Africa which had a very strong position and which did not want to go to the Reserve Bank. In the case of South Africa the first thing to be done was to establish relations between the public and the Reserve Bank directly, apart from the two strong banks.

Chairman: But even so, they began by offering a reduced rate to member banks as compared to the public.

Dr. Trip: Because they were under the impression (I think it was a wrong impression), that they could do no business otherwise. If you read this report, you will find that Professor Kemmerer and Dr. Vissering were absolutely opposed to that conception. Their view was that relations should be established between the public and the Reserve Bank.

Chairman: My point is that I want to avoid what I may call anomalies in our conclusions. Because you felt that at the present moment there is not a well developed and extensive bill market in India, one of your recommendations was that the Reserve Bank should be allowed to take from the public bills backed by warehouse warrants or warehouse receipts, and we have accepted that recommendation. If the Reserve Bank discounts bills backed by warehouse warrants or warehouse receipts at a higher rate than bills from its member banks, will not that recommendation be partially frustrated, because that seems to me to indicate that you want the Reserve Bank in the present conditions of India to establish a direct relation with the public?

Dr. Trip: I want to give them an opportunity of doing it if they think it advisable to do so, but on the other hand, I prefer of course that the Reserve Bank should try to avail itself of the intermediary of the commercial banks. That is better for the position of the commercial banks and for the position of the Reserve Bank, because as the character of bills is not so easy to be defined in this country, it would be of interest to the Reserve Bank to have the signatures of a member bank. I do not think that the second provision of quoting a preferential rate for member banks would interfere with the possibility of the Reserve Bank working with the public, because the situation in this country is absolutely different from that in a country like England or in my country. In South Africa too the commercial banks charge a higher rate for paying bills than the re-discount rate of the Reserve bank.

Chairman: Of course the recommendation of the Vissering-Kemmerer Committee was really that the commercial banks should charge a lower rate on discounting of bills than the discount rate of the Bank of South Africa.

Dr. Trip: That is of course the ideal position, but for that you ought to have a very developed and very well provided money market, which is lacking here and will be lacking for a certain number of years, in any case, after the Reserve Bank is started.

Chairman: Therefore you definitely recommend that provision?

Dr. Trip: I must say that I would leave it to the Reserve Bank to consider whether they think it advisable to apply that provision in order to stimulate the acceptance business.

Chairman: Therefore your recommendation would be that we should say that the Reserve Bank, when it is established, should consider this question?

Dr. Trip: Yes.

Mr. Manu Subedar: I am in general agreement with everything you have said to-day. There are one or two aspects of this recommendation which I am anxious the Committee should make and to which I would draw your attention. There is the question of compulsory deposits which do not obtain in other countries. These compulsory deposits will take away from joint stock banks a certain amount of money. Whether by the taking away of this money there would be a stringency to start with or not I do not know, but I apprehend that at least the resources on which they are operating at present would, to that extent, be reduced

Then there is the question as to how far the resources could be increased and by what method. There are several methods suggested in the Reserve Bank Bill by which joint stock banks would receive accommodation from the Reserve Bank, *viz.*, by bills, by way of cash credits, *i.e.*, on promissory notes, and so on. With regard to bills, as you yourselves expressed, the discretion would be left to the Reserve Bank. Should they decide by the situation that this measure is not necessary, they may not do so; if they decide that it is necessary and that they cannot, for certain reasons of their own, adopt it, they need not adopt it. But subject to that, the definite recommendation which I would like this Committee to make is that to the extent of the compulsory deposits from these banks, a special rate should be given to the banks for rediscount. I think an experiment may be made, the amount being limited to the amount which the banks will compulsorily deposit and on which the banks will earn money. These compulsory deposits would be lost to the banks and the Reserve Bank will pay nothing on them. Joint stock banks may or may not want to borrow on this basis, but should they want to borrow then my suggestion is that, to the extent of their deposits, we may make a more definite recommendation, and that as to whether the rediscount rate for the unlimited portion should be generally lower, we may leave it to the discretion of the Reserve Bank. And even the definite recommendation, I do not say, should be applicable to the joint stock banks on occasions when the Reserve Bank wants to contract currency. But assuming that the position is normal, would it be wrong if we made a recommendation that up to this extent, at all events, the rediscount rate should be lower?

Dr. Trip: I must say that I look at this question from a different point of view. Whether the requirement of a certain deposit with the Reserve Bank is made compulsory, as has been done in the U. S. A. and is proposed in the Reserve Bank Bill, or whether it is left to the option of the commercial banks—this is only a question of policy—practically all commercial banks in all countries ought to keep cash balances: whether they keep them in their own tills or whether they keep them with the Reserve Bank, is in this respect practically the same. As regards the relations between the commercial banks and the Reserve Bank, and the facilities the former can get from the latter, I should prefer to leave the Reserve Bank absolutely free, and would not make any recommendations with regard to a relation between compulsory cash balances and credit facilities from the Reserve Bank.

Mr. Manu Subedar: I entirely agree with you that the question of keeping cash in their own hands or with the Reserve Bank is fundamentally a question of banking. The question arose because of this that when I suggested in our discussion yesterday that the rediscount rates should be lower in the first few years, I was told that there might be discrimination, and that some banks might get greater facilities than others. Then I said that the magnitude of the deposits might form the basis of such facilities. Some people thought that this provision about rediscount might be abused in this country, and that there might be discrimination in the matter of rediscount facilities as between banks, and it is to prevent these evils that I proposed this restriction. There was such an apprehension in the minds of some of the members at this table, but personally I do not want that restriction.

Chairman: I understand Mr. Manu Subedar's point to be this: he wanted to know whether because of a certain fact which he mentioned, Dr. Trip would not give another advice which would relate to that particular aspect of the question, and when Dr. Trip would not give that advice, Mr. Manu Subedar said that that was not his point, but that it had arisen because some other member had raised it. I really do not know whether any member raised it. The discussion was between Mr. Manu Subedar on the one hand and the Vice-Chairman, Mr. Khaitan, Mr. Sarker and Mr. Chetty on the other. I do not know if any of them raised this particular point. You say other members raised this question. The members are justified in protesting immediately.

Mr. Manu Subedar: I said 'the apprehension in their minds from what they said.'

Chairman: That is a statement which you did not use. However, you may go on.

Mr. Manu Subedar: The Reserve Bank will know its own business and will decide as the occasion admits. It will do its best to help other banks, and incidentally to effect a close contact with them. I agree with you that the matter should be left to its discretion, but I suggest that our recommendation should be that there is nothing inherently harmful, if the Reserve Bank found itself in a position to give a lower rediscount rate to particular banks.

Dr. Trip: I should not like to give commercial banks a preferential rate to get credit from the Reserve Bank up to the amount of their compulsory deposit. It would be a dangerous principle. We must not give commercial banks any right with regard to the Reserve Bank. We must leave the Reserve Bank free to come to its own decision. The principle is that these cash balances should be free balances with the Reserve Bank, and they should not influence the decision of the Reserve Bank, as to what amount, on what paper, and at what rate it would give credit to commercial banks.

Mr. Manu Subedar: In the great money markets of Europe—in your country, in London—a bank bill commands a better rate than a trade bill.

Dr. Trip: Yes.

Mr. Manu Subedar: We have no discount market in India—I am mentioning this argument in support of the idea on which we both are agreed—and if we wanted something corresponding to that position in this country, then the lower rediscount rate is one method of securing it.

Dr. Trip: It would be a kind of first step, but the general rule in the markets you mention is that the rediscount rate of the Reserve Bank is higher, not lower than the commercial bank rate.

Mr. Manu Subedar: It will be many years before that position will be reached, and something will have to be done in the matter of rediscount although it may not have a parallel in other countries.

Dr. Trip: There must be an inducement for the banks to try to create sound bills, and that inducement will be afforded perhaps if the Reserve Bank quoted a lower rate for good bills, irrespective of cash balances. If the Reserve Bank found that it was not a sufficient inducement it could go a step further and give special preferential rates. It is the second inducement.

Mr. Devadhar: They charge higher rates for agricultural paper. Why?

Dr. Trip: I think it was because of their currency. Prof. Kemmerer and Dr. Vissering recommended to provide for the Reserve Bank taking agricultural bills with a currency of 120 days.

Mr. Devadhar: It is not on the ground of agricultural paper being unsound?

Dr. Trip: No. They are not what we call self-liquidating paper to the same extent as trade bills are.

Mr. Devadhar: So far as Indian conditions are concerned would you be for charging the same rate if not a lower rate?

Dr. Trip: As far as I can see the position now, I should prefer not to make any difference between agricultural paper and any other paper. This is, to start with. I do not know the development.

Mr. Shanmukham Chetty: In South Africa there are only 2 big joint stock banks. But in India there will be 62 member banks: you will find this if you refer to the schedule. We propose that the indigenous bankers should be linked up with the Reserve Bank system, and if this is done, there will be a considerable number of bankers. From this point of view our condition is fundamentally different from that of South Africa. What we were considering yesterday was the suggestion by Mr. Manu Subedar that for the first five years the Reserve Bank should also publish, to the member banks, special rediscount rates or rates at which the Reserve Bank will rediscount bills up to a certain limit. This, Mr. Manu Subedar suggested, was one means of encouraging the bill habit in India. The Bank rate published by the Reserved Bank means, I suppose, the rate at which they will be prepared to rediscount bills of member banks.

Dr. Trip: That is not the meaning in our country. It is called rediscount rate. Bank rate is the rate not only for the banks; it is the rate at which also the public can discount bills at the Reserve Bank. The general bank rate is the rate at which the Reserve Bank is prepared to buy or discount bills. The preferential rate would be the rate at which the Reserve Bank would be prepared to take bills from banks or bankers that are in relation with it. Next to that there is the commercial bank rate, that is the rate at which commercial banks take paper from their customers in the first instance.

Mr. Shanmukham Chetty: Whichever is called the bank rate we contemplate the possibility of the bank having two rates; one for the public and a lower rate to member banks. Normally we do not expect the Reserve Bank to come into open market operations and thereby come into competition with its own member banks.

Dr. Trip: As far as necessary in order to make their own policy effective, the Reserve Bank should do that.

Mr. Shanmukham Chetty: Consistent with making their policy effective, since in our country there are 62 member banks who are joint stock banks, and also a considerable number of indigenous bankers, we do not expect that normally the Reserve Bank will come into competition with its member banks by entering the open market operations. We contemplate giving to the Reserve Bank the power to enter the open market for the purpose of giving it the means by which it will make

its policy effective with regard to the bank rate, and we expect the Reserve Bank to come into the open market operations only to carry out that policy. If it is considered that the Reserve Bank would come into the open market only to make its policy effective and not normally to compete with banks in the open market, then I suggest that a provision of this nature will be of no use, because the Reserve Bank will go into the open market only at a time when its own rediscount rate is lower, and the joint stock banks and other banks do not give effect to that policy and keep their discount rate high.

Dr. Trip: The very fact that the Reserve Bank will have the power to enter the open market will change the relation between the commercial banks and the Reserve Bank. If the Reserve Bank quoted special rates for the member banks it will be a second weapon in the hands of the Reserve Bank. For then the Reserve Bank could tell the commercial banks that if they did not bring down their rates, it would not allow them the preferential rate. I do not say that they ought to do so, but they would be in a position to do so.

Mr. Shanmukham Chetty: If the Reserve Bank has got the power of going into the open market and of discounting bills directly, don't you think there will be sufficient check on the operations of commercial banks and the rates charged by them for the public?

Dr. Trip: It will be a sufficient weapon in the hands of the Reserve Bank, but I do not see any objection to the proposal of Mr. Manu Subedar; I think it would be useful. You started by saying that it would be useless for the Reserve Bank to have that weapon, and I do not consider so. On the contrary I think it would strengthen the position of the Reserve Bank.

Mr. Shanmukham Chetty: You agree that the power of the Reserve Bank to go into the open market is by itself a sufficient guarantee that commercial banks will maintain a proper discount rate.

Dr. Trip: I think so; but you must not forget that it will not be easy for the Reserve Bank to enter the open market because they have only a few branches.

Mr. Shanmukham Chetty: It might be useful in certain cases for the Reserve Bank to have this option of quoting lower rates, but considering the fact that the power in the hands of the Reserve Bank might lead to complaints of favouritism, don't you think that the disadvantage is really greater than the advantage of such a provision which after all is superfluous?

Dr. Trip: I am certainly of opinion that if you want to start a Reserve Bank, the first thing required is that you must trust it; and if you don't do so, do not start it. You cannot put in the Act, the cases when the Reserve Bank may or may not do a thing.

Mr. Sarker: Can you make us understand how this will be helpful to the commercial banks. The commercial banks will not go to the Reserve Bank so long as they find money in the market at a cheaper rate; so in order to help the commercial banks the special discounting rate suggested by Mr. Subedar must be less than the bazaar rate?

Dr. Trip: No, why?

Mr. Sarker: If they can get money at a cheaper rate why should they go to the Reserve Bank? I don't think the policy ought to be to drive the commercial banks to the Reserve Bank. That must be the possibility that it is open still for the banks if they cannot themselves get cheaper money in the market. They will come to the Reserve Bank only when there is . . . . .

Dr. Trip: Yes, I think that is quite useful too.

Mr. Sarker: Then the difference is that the Reserve Bank must be supplied at a higher rate? That is the principle of the Central Bank; so the difference between ½ per cent. and 1 per cent. will not matter much?

Dr. Trip: If they can get cheaper credit from the Reserve Bank on bills than on other kinds of security then they will prefer the bills. So, I said there is a possibility that if the discount rate of the Reserve Bank is lower than the cash credit rate they will try to create bills in order to bring them to the Reserve Bank if they want money from the Reserve Bank. I cannot say in advance whether that will be a strong enough inducement because in this country the bills are considered to be not so good a security as collateral.

Mr. Manu Subedar: Would you then say that this preferential rate would also, among other consequences, have the beneficial effect of reducing large stocks of Government securities?

Dr. Trip: I must say yes. I think that would be beneficial.

Mr. Sarker: We find from the balance sheets of these commercial banks that about 40 per cent. of their investments are in Government securities. So, at present and for 4 or 5 years to come, the resources through which they can cultivate . . . .

Dr. Trip: Yes, it is quite true. I see your point quite well. It is of course the question that the bill habit must develop gradually; you cannot change the position all at once. If I could be dictator I should say Government securities should not be held by banks to the present extent, but I think that is a question which is greatly influenced by the present abnormal circumstances.

Dr. Trip: They can transfer the Government securities into treasury bills to a certain extent, because treasury bills is a different thing.

Mr. Khaitan: We have great sympathy with the desire to create the bill market and to replace the present stock of Government securities which are in the banks, and to replace partially, if not wholly, the cash credit system by bills. Now the question is how to achieve that object? At the present moment you know that the rate quoted by the Imperial Bank, what is called the Bank rate, is for advances to be made against Government paper. The cash credit account rates of interest are almost wholly above the bank rate, that is say ½ per cent. or 1 per cent., but there is no fixed rate at which the Imperial Bank would rediscount bills or discount bills tendered by the banks. I believe that what should be done is that in place of this situation a situatoin should be brought about under which Government securities are the surest means whereby banks can get assistance from the Imperial Bank whenever they want: bills in the portfolio of the banks should attain the position that it is against bills that they have not only the surest way of getting advances from the Reserve Bank but also the cheapest rate.

Dr. Trip: You want to introduce an Imperial Bank discount rate, is that your object?

Mr. Khaitan: Not exactly. When the Reserve Bank comes into being the Imperial Bank might start it if it likes, but the commercial banks should be assured that the bills in their portfolio are a surer and cheaper way of getting assistance from the Reserve Bank in times of need than the holding of Government securities.

Dr. Trip: That was the proposal in my paper.

Mr. Khaitan: Now, therefore, the first thing that we lay down is that the rediscount rate of bills should be lower than the rate of interest at which the Reserve Bank would make advances against Government securities and against what we may generally call the cash credit account rate. Having done that should we not also go further and see to it that the position should be such that it would be an inducement to the banks that they should get more bills into their possession than Government securities and cash credit accounts. The question then arises as to how it should be done. Supposing you advise us to fix a lower rate for discount of bills presented by the banks than for discount of bills presented by the public. Let us take a concrete case, say 4 per cent. to be the rate of interest at which the Reserve Bank would rediscount bills—by rediscount I mean discount and everything—5 per cent. would be the rate at which the Reserve Bank would advance money against Government promissory notes. Now if the banks can get money at say 3 per cent. or 3½ per cent. by the discount of bills from the Reserve Bank would it not again become a temptation to the commercial banks to use that money to advance monies against Government promissory notes rather than against bills.

Dr. Trip: I cannot see it, for they cannot get the money from the Reserve Bank without bringing bills to the Reserve Bank. In the first instance they must have the bills.

Mr. Khaitan: In the first instance they must have the bills but when they get that money would they replenish their portfolio of bills by buying further bills?

Dr. Trip: I think they would further try to get bills because bills have only a limited currency and if they had no other bills when the bills rediscounted with the Reserve Bank became due, they would not be able to get the preferential rate. If they use the money the first time they discount the bills with the Reserve Bank to give cash credits, then, of course, they will not have bills to place with the Reserve Bank if the first lot of bills had lapsed.

Mr. Khaitan: Perhaps I have not made my meaning quite clear. Let us look at it from the cash credit point of view. You want to convert the cash credit accounts into bills?

Dr. Trip: As far as it is possible.

Mr. Khaitan: If that is so and if you have two bill rates, one for the public and one for the banks, don't you think it would, to a certain extent, prejudice that position?

Dr. Trip: No, I cannot see it because they are two different things. One is that there should be opportunity for the Reserve Bank to discount bills that come from the public apart from the banks. That is a measure in

order to induce banks not to take unduly high discount rates, but apart from that you have the preferential rate on behalf of the commercial banks in the first place in order to get the security for the Reserve Bank from the signature of a member bank and in the second place to create a stronger inducement for the commercial banks to try to get as many good bills as possible in order to get the favour of the preferential rate.

Mr. Khaitan: There is a branch of the trade that you cannot convert into good trade bills. For example, a jute merchant in Calcutta holds stocks of loose jute and on the security of those goods the bank opens a cash credit account with the merchant and advances him money according to the means of the merchant, and sometimes there is a half interest clause. So far as that merchant is concerned and that branch of the trade is concerned, I believe you will agree with me that that is a branch of activity which cannot be converted into bills.

Dr. Trip: As long as jute, or whatever it is, is not sold it will be very difficult to convert these credits from cash credits into bills. You must always have a seller and a buyer, in order to create good trade bills and as long as the produce is not sold and is in the warehouse or the mill, there is only the owner of the goods, so I think that position cannot give rise to a sound trade bill.

Mr. Khaitan: The produce is certainly sold at both ends. For example, when the jute trader buys jute there is a seller, and the jute trader is the buyer.

Dr. Trip: That could be the basis of a bill.

Mr. Khaitan: The jute does not remain in the godown for a good long time. It is sold within a period of say 90 days. Now on the one hand the seller sells the jute to the mill—that may be done with a 90 days' bill. Then the jute is sold by the mill to some other purchaser.

Dr. Trip: That also could furnish a basis for a bill.

Mr. Khaitan: That furnishes two aspects which could easily be converted into bills. So far as Calcutta is concerned—and I believe there is also that system in Bombay as regards cotton and other things—it would furnish the easiest means of bringing a good bill market into existence.

Dr. Trip: As I said before, of course, the seller of the goods must be prepared to sell on credit. If he wants payment at once or even in a fortnight, there is no basis for a bill.

Mr. Khaitan: He will get the payment at once if the bill is discounted.

Dr. Trip: That is, of course, a condition. There must be confidence between the seller and the buyer. The seller must be prepared to give credit for some months to the buyer.

Mr. Khaitan: There is no doubt about that because these buyers are usually the biggest merchants. Now if you preclude the public from going to the Reserve Bank at the usual Bank Rate where would be the inducement for the banks to convert the cash credit accounts into bills? If the banks themselves can get money from the Reserve Bank at a lower rate they can reduce their rates of interest on their cash credit accounts. If you

maintain a difference of say 1 per cent. with the discount rates of the bank and the discount rate of the public, and if the banks can cash money at 1 per cent. higher than the rates at which they can discount bills with the Reserve Bank, then how can you convert the cash credit accounts into bills?

Dr. Trip: Because unless the banks co-operate to convert these cash credits into bills they never can avail themselves of the preferential rate of the Reserve Bank.

Mr. Khaitan: Well, the position is that they will have to depend upon the co-operation of the banks. If the banks are such good institutions that they will willingly co-operate then much of this discussion would be futile. But we are assuming that the banks might not be so willing to co-operate. There is a great fear that in India many of the influential banks would not so willingly co-operate with the Reserve Bank as they do in other countries.

Dr. Trip: Then the moment will have come for the Reserve Bank to enter the market itself, to be prepared to take these bills from the traders.

Mr. Khaitan: If the banks do not willingly co-operate then your advice would be to have no difference in the rate of interest charged for discounting of bills offered to the public and for discounting of bills offered to the banks?

Dr. Trip: No. In the Act Clause 18 is framed as a kind of emergency clause. I should say that if I were the Reserve Bank and the traders came to me and complained of the commercial banks charging a high discount rate and asked me if I were prepared to take the paper at a lower rate, I would just find out the rate of the commercial banks. If there was a reasonable relation, let us say ½ or 1 per cent. higher than the discount rate of the Reserve Bank, then I would say 'I think the difference reasonable and I prefer that you place your bills with your commercial banks'.

Sir Purshotamdas Thakurdas: I would like to understand what you think should be the correct definition of Bank Rate for the purpose of an Indian Reserve Bank in view of the conditions you have seen here. I understand from you that in Holland there is one meaning. Bank Rate means the rate at which you discount certain papers, but for certain other bills it is a higher rate.

Dr. Trip: The Reserve Bank has only one discount rate. Generally speaking, as far as I know, it is the general rate at which the Reserve Bank is prepared to take good trade bills.

Sir Purshotamdas Thakurdas: Of its member banks or anybody?

Dr. Trip: Anybody.

Sir Purshotamdas Thakurdas: And you think that the Bank Rate should be the rate at which the Reserve Bank should be prepared to discount trade bills either of the member banks or the public?

Dr. Trip: That is, of course, difficult to say in the beginning.

Sir Purshotamdas Thakurdas: I do not know whether we understand Bank Rate in the same sense as you want to. What would you define Bank Rate as?

Dr. Trip: I would define, on the basis of the discussions that are going on now, the Bank Rate as the general rate at which the Reserve Bank would be prepared to take good paper of good parties.

Sir Pushotamdas Thakurdas: What do you mean by general rate--general rate for anybody?

Dr. Trip: Yes, for the parties who they think are of such standing that they can be granted discount facilities.

Sir Purshotamdas Thakurdas: For the member banks as well as for the public?

Dr. Trip: Yes.

Sir Purshotamdas Thakurdas: Is it the minimum rate or the maximum rate?

Dr. Trip: If the Reserve Bank would quote a preferential rate for the banks, it would be the maximum rate.

Sir Purshotamdas Thakurdas: In view of Indian conditions, how would you recommend us to begin the Reserve Bank, with maximum or minimum rate?

Dr. Trip: I do not quite understand what you mean by minimum and maximum rate. In any case the Reserve Bank would be free to go above or below the rate.

Sir Purshotamdas Thakurdas: In the Reserve Bank Bill, which was before the Select Committee, it is mentioned as the minimum rate.

Chairman: That is the Bank of England practice too.

Sir Purshotamdas Thakurdas: In that Bill, Sir Basil Blackett said that in London there was no question of doing any business under the bank rate. Now you gave the definition of the bank rate as being the general rate and I would like to understand exactly on what basis you would like us to frame our recommendations.

Dr. Trip: If the Reserve Bank started today, I would propose to start with the general rate, as I call it, or as you call it, the minimum rate. I think we mean the same.

Sir Purshotamdas Thakurdas: No, we do not. Should the general rate be the minimum rate?

Dr. Trip: I would start with one general minimum rate, the bank rate being say 6 per cent; and I would start from the present Imperial Bank rate, which is 7 per cent and would make that the rate for cash credits.

Sir Purshotamdas Thakurdas: You would make the bank rate the minimum rate, and the encouragement which you wish to give would be by putting the others higher?

Dr. Trip: Yes.

Sir Purshotamdas Thakurdas: That is one way of doing it. Cash credits and Government securities would be at 6½ per cent. Do you think it would be in the interests of the money market in India to have the Bank Rate as the minimum rate?

Dr. Trip: I would begin with a minimum rate.

Sir Purshotamdas Thakurdas: Therefore, your point is that the bank rate should be the minimum rate? And nothing should be done under that while the Bank Rate is at a certain figure?

Dr. Trip: No. I want to make my point clear. I came to the conclusion that in this way there would, perhaps, not be enough inducement to create more bills and I would consider the possibility of giving and publishing a lower rate on behalf of the member banks. I would not begin by doing that. I would, in the first place, see how the situation is developing on the basis of our general minimum rate. If there was not enough inducement created in that way for bills to come to the Reserve Bank, then I would consider a lower rate on behalf of the member banks.

Sir Purshotamdas Thakurdas: You would have the Bank rate to be the minimum rate as an ideal to be worked up to?

Dr. Trip: Yes.

Sir Purshotamdas Thakurdas: If the Bank Rate was 6 per cent. then the member banks would discount bills of merchants at 7 per cent. Is that your view?

Dr. Trip: I think that would, under present conditions, be the situation.

Sir Purshotamdas Thakurdas: And then whenever the banks wanted, they would be able to rediscount their bills with the Reserve Bank at 6 per cent.?

Dr. Trip: That is so.

Sir Purshotamdas Thakurdas: You still think that 1 per cent. margin for extension of financial facilities is not enough and that another half per cent. should be allowed for inducing the propagation of the bill habit.

Dr. Trip: We have the same difference between the cash credit rate of the Reserve Bank and that rate of the commercial banks. If the difference between the rates of the Reserve Bank and the commercial banks is the same in both cases—bills and cash credits—there is no special inducement for the commercial banks to create bills. If such special inducement is to be made, then it will be necessary to make a greater difference between the Reserve Bank Rate and the rate at which commercial banks discount the bills of their clients than between the cash credit rate of the Reserve Bank and that rate of the commercial banks.

Sir Purshotamdas Thakurdas: In Holland and England, is the market rate higher or lower than the ordinary bank rate?

Dr. Trip: It is generally lower in both the countries.

Sir Purshotamdas Thakurdas: But here you advocate that it should be higher than the Bank Rate.

Dr. Trip: I do not advocate it; I only say that it will be the case because the condition here is quite different from that in other countries.

Sir Purshotamdas Thakurdas: What is the position in Germany in regard to this matter?

Dr. Trip: I do not know the present position in Germany because it is in an abnormal condition now.

Mr. Sarker: In 1925 it was lower.

Dr. Trip: It might be so. Generally the commercial bank discount rate is lower than the Reserve Bank rate.

Sir Purshotamdas Thakurdas: Your view is that at least for the first few years the rate should be higher. If it is so, then the inducement, to my mind, for rediscount purposes does not exist at all. Supposing the Bank of India rediscounts its paper up to the extent of, say, Rs. 1 crore. Whenever the Bank finds that it is in need of money it can always go to the Reserve Bank and earn 1 per cent. more. That being so, I ask wherein lies the necessity for giving another half per cent.?

Dr. Trip: They can earn the same per cent. if they bring their cash credits to the Reserve Bank or by means of Government securities or warehouse receipts.

Sir Purshotamdas Thakurdas: It has been agreed in the Committee that Government securities should carry a higher rate of interest than bills. If I go to the Imperial Bank of India with a bundle of Government securities worth Rs 50 lakhs, I will be charged a little higher rate but if the Bank of India goes to the Imperial Bank it will get accommodation at the Bank Rate.

Dr. Trip: You must not forget that the Bank of India will charge a higher rate on Government securities than on bills. So there will be the same difference between rates at which they will get their money from the Reserve Bank and the rate at which they will charge their customers. And so there will not be any special inducement for banks to use bills.

Sir Purshotamdas Thakurdas: So then the Bank rate, according to you, will be the minimum rate for the first few years?

Dr. Trip: Yes, for discounting bills. The lowest rate should be the discount rate for bills, then loans against securities and against the security of goods, whilst at a later stage a difference might be made between three months' fixed loans and credits on current accounts. So then my point is that the Reserve Bank will not have one rate, but several rates for different kinds of accommodation.

Sir Purshotamdas Thakurdas: Let us assume the Bank Rate to be 6 per cent. then how would you fix up the other rates?

Dr. Trip: The cash credit rate may then be 7 per cent.

Sir Purshotamdas Thakurdas: Then what will be the rediscount rate?

Dr. Trip: Let us say 6 per cent. For argument's sake assuming that the Reserve Bank cash credit rate is 7 per cent. then the banks will charge 8 per cent. to the customers for cash credits. If the Reserve Bank discount rate is 6 per cent. then the banks will charge 7 per cent. for discounting bills, so that the difference between their rates and the Reserve Bank Rate is in both cases 1 per cent. That being so, there will be no special inducement for banks to give credit against bills and therefore if

you lower the rediscount rate with the Reserve Bank to say 5½ per cent. while the commercial banks continue to discount these bills at 7 per cent. you would be creating a special inducement for banks, in order to encourage the bill habit.

Sir Purshotamdas Thakurdas: Therefore your suggestion is that although the ordinary bank rate should be rediscounting rate with the Reserve on behalf of the member banks, the Reserve Bank would under special circumstances be given the power to reduce their rediscount rate to its members.

Dr. Trip: In any case, I would leave the power in the hands of the Reserve Bank and allow them to do what they think advisable under the circumstances.

Sir Purshotamdas Thakurdas: You would not compel them to do so but would only recommend it for their favourable consideration.

Chairman: As a result of this discussion I have drafted my suggestion with regard to this point. My difficulty was more fundamental. The Statutes of most banks have definitely laid down that the bank rate should be the minimum rate and therefore, if the bank was going to charge a rate lower than its minimum, it may be contravening its Statute unless a provision is made in the Statute for the same. I am not aware whether such a proviso has been laid down in any country in the world. I do not know whether my Committee will agree with your advice in substance. I would like you to consider whether the provision should not be made in the way indicated in the paper which reads:—

> "The published rate of the Reserve Bank should be the minimum rate at which it is prepared to buy or rediscount first class trade bills. To stimulate the use of bills, the Reserve Bank should use its discretion to charge a higher rate for demand loans against authorised securities, and it may find it useful to have a larger margin between these rates at the outset, than will be necessary after the bill market has developed. The Reserve Bank should also consider whether for the same purpose, it should not charge a higher rate of discount to the public than that charged to member banks and bankers."

Dr. Trip: In the Netherlands Bank Act there is no provision that the discount rate should be the minimum rate. If they wanted to give the banks a lower rate than to the public, they are at liberty to do so.

Chairman: That means that the Reserve Bank there, generally publishes its rate. And what does that Bank Rate mean in Holland?

Dr. Trip: It means the minimum rate and the rate for discount for everybody.

Chairman: And therefore, whether that practice has been brought about by enactment or by convention, the difficulty to my mind is whether the bank's action will not be misunderstood if it reduced its rate below the published rate. It will also give rise to suspicion. Therefore, even if I have to accept your advice, I would like it to be put in the form in which I have put it. Language of course may be altered if necessary.

Mr. Manu Subedar: In the first sentence it should be "discount" and not "re-discount".

Mr. Lamond: Under Clause 18, the Reserve Bank will take bills direct from the public only in cases of emergency. Ordinarily they will only discount bank-endorsed bills. We cannot lay down any terms. It should be left to the Reserve Bank management to deal with the matter in the best of their lights. The Reserve Bank minimum rate should be the rate at which they will discount the bank-endorsed bills. Here I find it worded to buy or rediscount "first class trade bills". It should really be termed "bank-endorsed bills" under clause 17.

Mr. Khaitan: The draft seems to me to have been worded almost in accordance with Dr. Trip's advice, except the last sentence that it should not charge a higher rate of discount to the public than those charged to member banks.

Chairman: I want to know what should be the minimum rate. If what I have stated here will not constitute the minimum rate then I am quite willing to change this draft. As a result of the discussions that have taken place, I understood the minimum rate to be the rate at which the bank will be willing to discount first class trade bills. This does not give the Bank any power other than those given in the Act. But supposing the Act gives the Bank power, in certain cases, to go to the market and buy first class trade bills or to discount first class trade bills, then may I ask what should be the minimum rate?

Dr. Trip: I quite agree with this proposal. I think this is all that we need in fact.

Mr. Manu Subedar: Would you find any material difference if a portion of the last sentence were altered by substituting the word "lower" for "higher".

Dr. Trip: I think it all depends on the question of drafting.

Chairman: It means then that the Bank should be given the power and discretion. If it is to be discretionary then it shall have to be turned the other way, the minimum rate being understood as the Bank rate, and the Bank being not allowed the power of undertaking any transactions below the Bank Rate. Therefore, following that principle, I have put it down the other way. The Bank has full power to charge the minimum rate above the Bank Rate, and therefore if a differentiation has to be made it will have to be made to the public.

Dr. Trip: As a matter of fact I think it comes to the same after all.

Mr. Manu Subedar: It comes to the same, so far as the drafting is concerned but there may be this difference with regard to the minimum rate which the Bank will charge to its member banks. It is necessary for the country to avoid too frequent changes in the Bank Rate. Also I fear that there may be this consequence. The declared Bank Rate forms the basis of many transactions in this country, and it will continue to be so for many years to come, because the tradition cannot be broken easily. I would therefore like to put it in the other way and allow the Reserve Bank to give preferential treatment to member banks with regard to rediscount when it deems it desirable.

Dr. Trip: Your point is that the rediscount should be made only at Bank Rate.

Mr. Manu Subedar: That is the whole point; that minimum being chargeable to the member banks, the Reserve Bank Rate should be higher when it comes to the open market.

Chairman: Of course, it should be at the discretion of the Reserve Bank.

Mr. Manu Subedar: We are all agreed on discretion.

Dr. Trip: If we avail of this provision then the Bank Rate will have to be higher I would say the Bank Rate should be 6 per cent. and available to the public and that preferential rates to member banks should be 5½ per cent. After all it comes to the same thing.

Chairman: I do not understand the disturbance of the market. It is agreed on all sides that the primary function of the Reserve Bank is to rediscount bank bills. It should use discretionary power, but in the interests of the Money Market, whenever it is satisfied that it ought to take some action, it can go to the open market. Therefore, if the normal Bank Rate is the rate at which the Reserve Bank rediscounts the paper of its constituent banks, I would like to know the basis of your views in regard to this matter.

Dr. Trip: With regard to the basis of the Bank Rate, the basis should be the rate at which the Reserve Bank rediscounts bills from member banks. If that is clearly understood I have no objection. I think it would, to a certain extent, prevent confusion, because you say in the first instance that "the published rate of the Reserve Bank should be the minimum rate at which it is prepared to buy or rediscount first class trade bills." The Reserve Bank should consider whether, for the purpose of developing the bill habit, it should not charge a lower rate to member banks than to the public. I must say that it is not a question of principle.

Chairman: I do not say that my colleagues will accept this, because I believe the Vice-Chairman still holds that this provision is unnecessary. I was trying to understand whether this would maintain the provisions of the law, or convention which now exist in countries other than the United States, where there are two different rates laid down. In other countries, so far as I know, there is one published rate; it may be by law or by convention (law in England, convention in Holland), which refers to the minimum rate. It is a well understood principle. I start with that principle and say that if the Reserve Bank considers it necessary that to develop the bill habit this last provision is required it is open to them to take action. Once it is mentioned in the Act, it becomes a sort of compulsion; it does not keep the discretion fluid. On the other hand, if I say it is purely a discretion, the Reserve Bank can do just as it likes.

Dr. Trip: I absolutely agree with this provision and I do not think there is any harm in it.

Mr. Lamond: Under Section 18 of the Reserve Bank Bill the Bank comes in only when it is desirable to regulate the market with reference to trade bills from the European market. In your paper you recommended that the Bank should also have power to advance against warehouse warrants and goods in godowns. The question whether these bills should be included in Section 17 (2) (*a*) has not been discussed by the Committee.

Till that is done, should not the Bank Rate be something which the Reserve Bank is authorised to do in the ordinary course, that is, buy and discount bills under section 17 (2) (*a*)?

Dr. Trip: I do not see it.

Mr. Lamond: The bank rate must be a rate at which the bank is authorised to do business in a certain way. It is authorised to purchase and rediscount bills of exchange and promissory notes, drawn and payable in India and arising out of *bona fide* commercial or trade transactions, bearing two or more good signatures, one of which shall be that of a scheduled bank.

Chairman: We have already accepted Dr. Trip's proposal that the bank should make loans and advances on the security of movable goods, besides the warehouse warrants or warehouse receipts.

Mr. Lamond: But in the evidence, he wanted to bring it out in addition to clause 18.

Dr. Trip: I did not say that. But even if we look at it from your point of view, I do not see any objection.

Mr. Lamond: Why not say "the published rate of the Reserve Bank should be the minimum rate at which it is prepared, under section 17 (2) (*a*), ... etc."?

Dr. Trip: They are entitled to do it whether it is confined to banks or not.

Mr. Lamond: With regard to the last sentence reading "The Reserve Bank should also consider whether for the same purpose it should not charge a higher rate of discount to the public than that charged to member banks and bankers", it will only come in in case of an emergency.

Dr. Trip: They can do it if they think it necessary or expedient that action should be taken. The whole position of the country is such that I think it advisable and desirable, in the interests of trade and commerce, that the Bank should be allowed to make permanent use of the provision.

Mr. Lamond: And run the risk of other banks leaving them alone?

Dr. Trip: I do not think there is much fear of that.

Mr. Lamond: They must have co-operation.

Dr. Trip: But it does not depend on them alone.

Mr. Lamond: If the emergency proceeds for a year, they must go for it, but the rate should be the rate at which they are authorised to do something in the ordinary course under the Act.

Chairman: I see there is something in Mr. Lamond's point. As I have already said, rediscounting is the normal business. You also advocate buying for a specific purpose, *i.e.*, to create a bill habit. Mr. Lamond calls it emergency. I will go so far as to say that it is an abnormal operation; it may have to be done in emergency or it may have to be done under abnormal conditions. That being so and subject to what my colleagues have to say, I do not see any dreadful objection to omitting the words 'buy or'.

Mr. Lamond: I would say that "the published rate of the Reserve Bank should be the minimum rate at which it is prepared to buy or rediscount bills or promissory notes under section 17 (2) (*a*) of the Reserve Bank Bill".

Dr. Trip: Then you cannot keep the last sentence.

Chairman: What about section 17 (2) (*b*)?

Mr. Lamond: That is not a ninety days' bill.

Chairman: We come back to the point at which we started. This does not give the Reserve Bank any additional power to buy or rediscount. That is provided for by the provisions in the Act.

Mr. Lamond: I do not want in this resolution to make it that the Reserve Bank will in the ordinary course buy paper in the open market.

Chairman: How can it?

Sir Purshotamdas Thakurdas: When the Bank Rate is 6 per cent., you agree that the bank should rediscount members' bills at the Bank Rate.

Mr. Lamond: Yes.

Sir Purshotamdas Thakurdas: When it comes to the open market, you agree that the bank will have to rediscount at a lower rate.

Mr. Lamond: No, it may be the same rate, it may be a higher rate. If it is to be a lower rate, they must reduce the Bank Rate.

Sir Purshotamdas Thakurdas: Then the question of going into the open market ceases altogether. When does the bank go into the open market? When it finds that the bill market is not following the policy which it does; and then it must have a free hand and it must not be restricted by the Bank Rate for that purpose. The Bank Rate applies to rediscount, not to discount. It may be at a higher rate or lower rate according to exigencies.

Mr. Lamond: That might happen.

Sir Purshotamdas Thakurdas: Even under the Bill, the Bank Rate is not binding for purposes of the open market operations?

Mr. Buckley: It is, see clause (47).

Dr. Trip: If they want to go into the open market, it is because their rate is not effective in the market. So I think a sound conclusion is that they should go into the open market at the same rate as they quote beforehand.

Mr. Lamond: That would put the rate down.

Dr. Trip: No. If the banks charge 3 per cent. above the Bank Rate and if the Reserve Bank wants to enter the market in order to lower the commercial bank's rate, they can do so on their own discount rate.

Mr. Buckley: If the published rate is the rate at which the member banks could go to the Reserve Bank, the member banks in the ordinary course would probably be charging 1 per cent. over, say 7 per cent. If, for argument's sake, they started charging 8 per cent., the Reserve Bank would come into the market at 7 per cent. and compete with the commercial banks so as to bring the rate down to 7.

Dr. Trip: Then they have to change the Bank Rate.

Mr. Rushforth: When the Bank of England went into the market a month ago, they operated at 1/16th over the treasury bill rate, and a week later they went in absolutely at their discretion at rates independent of the Bank Rate.

Sir Purshotamdas Thakurdas: But in neither case exceeding the bank rate which was 3 per cent. Therefore it was under the Bank Rate.

Dr. Trip: Your point would be met by putting it as a provision in the Act.

Mr. Lamond: I would like the last sentence to be taken out.

Chairman: We shall have to discuss it among ourselves.

Mr. Rushforth: My point is that when the bank comes into the market for a special purpose, it should operate at any effective rate it considers necessary.

Dr. Trip: But not under the minimum rate.

Mr. Rushforth: The Bank of England did come into the market the other day at 2 7/16 per cent. when the Bank Rate was 3 per cent. A week later it came in at a similar rate to increase the market funds. If it comes into the open market, it must come in at something corresponding to the market rate. In open market operations the bank must have full discretion, and the bank rate applies only to its normal operations, *e.g.*, buying.

Chairman: Therefore, your point is that the Bank of England rate is not the minimum rate for buying operations.

Mr. Rushforth: It is the minimum rate for rediscount of endorsed bank bills.

Chairman: Therefore, I come back to what I was saying, *viz.*, that the words "buy or" should be omitted.

Mr. Rushforth: I am not absolutely sure; they have their own rates, whether it is buying or rediscounting.

Chairman: But for rediscounting they cannot go below the Bank Rate. I was trying to find out whether the words 'buy or' were wrong.

Mr. Lamond: In the Act, the words are "purchase and rediscount". It means the same thing.

Chairman: As a matter of fact, what we have got to say is that the Reserve Bank should have full power to enter into any operation, purchase or rediscount, at rates below the published Bank Rate.

Mr. Rushforth: Certainly, it can do that under section 17 (2).

Mr. Khaitan: Not as it stands. Section 47 has got to be altered.

Mr. Buckley: Do you not think that you can visualise a time when, the bill habit would be so well established that instead of the commercial banks discounting bills at a rate about the bank rate, competition would come in and take that rate down below the Bank Rate. Similar conditions exist in western countries. If the bank then could not come into the market except at its minimum published rate, it could not come in at all to compete with commercial banks. That is the way I look at it.

Mr. Rushforth: It is fairly certain that if the market rate is 3 per cent. and the Bank Rate is 4, and the market rate drops to 2¾ per cent. and the bank thinks it too low, it is not going to discount bills at 4. If the bank is going to control the market at all, it has got to come in at or near the market rate.

Sir Purshotamdas Thakurdas: Which means, open market operations without restriction, but rediscounting at the Bank Rate. The open market operation is under control, other business, *e.g.*, rediscounting, is done in the normal course at a rate known to everybody and which is a common factor. A free hand comes in in the open market competition.

Mr. Manu Subedar: If there is a preferential market rate given to member banks, is it not possible that much of this preference may be passed on by competition?

Dr. Trip: Yes, it is possible.

Mr. Manu Subedar: Also, a bill with three signatures, including that of the bank, is a better security for the Reserve Bank.

Dr. Trip: I feel it is a question of importance to the Reserve Bank.

Mr. Manu Subedar: I put it to you whether the Reserve Bank may not want to occupy some of its funds. I do not say it should work to the disadvantage of the profit of the commercial banks. It should not compete with the commercial banks, but it has to make something on its money to carry on, and preferential discount may be one of the means by which the Reserve Bank without competing with the banks and through the banks, is enabled to make something on its funds.

Dr. Trip: Yes, certainly.

Mr. Manu Subedar: If you made rediscount an abnormal process, then the Reserve Bank may not be able to engage its funds.

Dr. Trip: As I said before, there need be no fear about the Reserve Bank not being able to engage its funds, especially having regard to the seasonal variations in this country.

Mr. Manu Subedar: You have suggested certain special measures such as warehouse receipts, because you fear that there would not be sufficient funds and also because it is desirable for the Reserve Bank to engage its funds in bills rather than in any other way.

Dr. Trip: Certainly.

Mr. Manu Subedar: Therefore the preferential rediscount rate might assist in all these objects.

Dr. Trip: Yes.

Mr. Rushforth: May I just make a statement? I feel very strongly with Mr. Manu Subedar that the member banks who are going to make it possible for the Reserve Bank to function, by means of compulsory deposits, ought to have the first claim on the Reserve Bank. For this reason, I would be in favour of a published rate that applies primarily to member banks. In practice, it will be a discretionary rate, but I should like that, with the co-operation and help of the Reserve Bank, it should apply primarily to member banks and that it is published to the world at large on that understanding.

Chairman: That being so, you are practically coming round to my formula. There is no question, thereafter, of giving the member banks a lower rate. In other cases a higher rate should be charged. Therefore, in regard to the procedure you are practically in agreement with me.

Mr. Rushforth: I am.

Mr. Buckley: I am practically in agreement with Mr. Rushforth.

Mr. Lamond: I also agree with Mr. Rushforth.

Lala Harkishen Lal: I entirely agree with these gentlemen. But if you want me to have the matter explained, I can ask a few questions. In some enactments there is very little said about Bank Rate, how it is to be fixed, etc., whereas in some charters it is all very explicitly laid down. So far as India is concerned section 47 says:

> "The Bank shall make public from time to time the minimum rate at which it is prepared to buy or rediscount bills of exchange or other commercial papers eligible for purchase under this Act."

Does the term 'from time to time' mean that the publication of the minimum rate will be once in six months, or once in a month, or once in a week, or on every day?

Dr. Trip: I think the rate ought to be published every week, as it is done in all other countries.

Lala Harkishen Lal: The question is, what classes of commercial paper are eligible for purchase under this Act. A list of such papers is not given. The discount rate is not the same for all classes of paper. Therefore, you will have to pick out the best paper on which the minimum should be charged. Mr. Manu Subedar says that the papers described in 2 (*a*) of section 17 are the best from every point of view. Have you anything to say against it?

Dr. Trip: I must say I agree with Mr. Manu Subedar.

Lala Harkishen Lal: That ends the whole dispute.

Chairman: Probably you have not followed Lalaji's point. Supposing you were the Manager of a Bank; so long as there is that provision in the Act, would you feel that, without contravening the Act, you would be entitled to pay for any paper less than the minimum you have declared.

Dr. Trip: No.

Chairman: That is the real point.

Lala Harkishen Lal: That is not the real point at all. The case is simply this. I am a banker. People bring me papers. I say to them—"The Imperial Bank rate is so much and my rate is so much above that. Take it or go away." I have said so, many a time. The same class of people go to the Imperial Bank which publishes the rate. That Bank deals in many classes of paper, and if it finds that any paper taken to it does not correspond to the minimum rate paper, it says 'Our published rate applies to such and such paper; this is of less value from the banking point of view, and I will charge so much.' That way the Imperial Bank does not commit any illegality, nor does any other bank which charges more than the Bank Rate.

Chairman: So long as it charges more, the question of illegality does not arise. My point is that if for any paper it were to charge less than the published rate, would it not—that provision being there—be committing an illegality?

Dr. Trip: Yes.

Lala Harkishen Lal: Which paper is that?

Dr. Trip: You ask what would be the general kind of papers that will be taken at the minimum rate. Generally speaking, I think it would be the paper under sections 17, 2(*a*). That, however, does not prevent the Reserve Bank from discounting other papers at the minimum rate.

Lala Harkishen Lal: I do not say that either. I was simply translating Mr. Manu Subedar's question. He says that the paper mentioned in section 17, 2(*a*) is the best paper.

Dr. Trip: Generally speaking, it is.

Lala Harkishen Lal: Even if there was any doubt about it, Mr. Manu Subedar says, it should be treated as the best paper for this simple reason that banks make deposits in the Reserve Bank and it is to the interest of the Reserve Bank to make, if possible, some money out of them. That is the only way it can be strengthened. If it were a simple custodian of money, it will not recover even the cost of taking care of the deposits. Mr. Manu Subedar says that the Reserve Bank should lend the deposits back on the best possible terms to the banks making those deposits and make something out of them. That is all he wanted to press; that is how I have understood him.

Dr. Trip: That does not lead to the conclusion that the Reserve Bank ought to give that credit to member banks. It should be left quite free in the matter.

Lala Harkishen Lal: It is really the best paper according to his and my thinking and the minimum rate should apply.

Dr. Trip: Yes.

Dr. Hyder: Under this Bill, the Reserve Bank becomes the central currency authority. What are the weapons that it has in its hands? Firstly, it is the bank rate; secondly, it is the open market operations; thirdly, there are the balances of banks. Your object in placing these weapons in the hands of the Reserve Bank is that it should be able to control the situation. Mr. Manu Subedar's draft, which has been circulated, provides for member banks getting a lower discount rate than the rate granted to the public, and in this you have another weapon of control. It seems to me that we are mixing up purposes. It is well that you should place a handicap in the way of those competitors of the group, but is it right that you should make use of another weapon which is not meant for that purpose?

Dr. Trip: In the first place, of course, we only ask the Reserve Bank to consider the question, not to do it under all circumstances as I said in the beginning. If they think it would be useful for developing the bill habit of this country, I cannot see that there is any great objection. Why would it have any harmful effect on the situation if they give a better rate to the banks than to the public, and why should that be harmful to the position of the currency? They can, of course, change the Bank Rate?

Dr. Hyder: I am going to quote to you the opinion of Mr. Clegg. His opinion is this: "Though it seems to me revolutionary now, nevertheless some such provision, duly safeguarded, should be added to the powers of the Central Bank in future . . . . . ".

Dr. Trip: I think it is rather a dangerous thing. If you compel private banks to keep cash balances with the Reserve Bank, I would not be in favour of leaving it to the discretion of the Reserve Bank to fix the ratio of these cash balances. If they want to contract currency they ought to do it in another way than by compelling member banks to keep a higher ratio.

Dr. Hyder: I think we are mixing the object and making use of it in another direction.

Dr. Trip: I think you will understand that in a new Bill the Reserve Bank will have to give credits to the member banks, and they are absolutely free to decide upon what amounts of credit they will give to the member banks. It is only a question whether it would not be useful, in order to develop the bill habit, that they make a preferential rate for the bills of the member banks.

Dr. Hyder: That would be a preferential rate for the bankers, but if you want to encourage the bill habit, you must put a premium on bills and put a handicap against the competitors of bills.

Dr. Trip: That is in the second sentence.

Dr. Hyder: But the third sentence does not go well with the second sentence.

Dr. Trip: As I explained this morning, you have relation between the rate of cash credits of the commercial banks and the rate of cash credits of the Reserve Bank. If the difference between these two rates is the same as the difference between the rediscount rate of the Reserve Bank and the discount rate of the commercial banks there is no inducement to the private banks to take bills instead of cash credits. So you will have to make the difference between the Reserve Bank Rediscount Rate and the commercial banks rate, greater than the difference between the cash credit rates. That is the point. If the commercial banks, by taking cash credits from the Reserve Bank, can make the same profit as when they take their bills to the Reserve Bank, then there is no inducement to take bills instead of cash credits. But if you make the difference between the bill rates greater than between the cash credit rates then there is an inducement for the private banks to use bills instead of cash credits. For example, if you have the cash credit rate of the Reserve Bank at 7 per cent. and the cash credit rate of the commercial banks at 8 per cent. there is a difference of 1 per cent. If you have the rediscount rate of the Reserve Bank at 6 per cent., and the discount rate of the commercial banks at 7 per cent. you have the same difference of 1 per cent. Now if you make the rediscount rate of the Reserve Bank for the private banks 5½ per cent., you have a difference of 1½ per cent., a greater difference than between the cash credits. Then there will be an inducement, I think, for the private banks to use bills instead of cash credits.

Dr. Hyder: That means, of course, that it is in the power of banks to change over from one system to the other?

Dr. Trip: No, that is not true. If you give a man an inducement, he can only do it as far as is possible.

Chairman: We have had a very full discussion and, from one point of view, it has been very useful. It has brought to our notice the fact that the provision as contained in that Bill did not provide for the open market transactions; and it is generally admitted that for open market operations the bank should have fullest discretion even to rediscount at rates lower than the bank rate. I take it that is accepted.

Dr. Trip: May I make a remark in respect of that? I cannot see that Section 47 would hamper the bank in its open market transactions. There are two kinds of open market transactions; in the first place in order to restrict currency and then Section 47 does not come in at all for then they have to sell their own investments, their securities, in order to take currency out of the market, or they have to raise their Bank Rate. If they want to intervene in order to expand currency or to lower the open market rate then they can work on the basis of their own published rate, or even at a higher rate.

Chairman: What about Mr. Rushforth's point? He said there may be cases in which for the purposes of regulating credit the bank may have to buy paper at a rate in regard to which the maximum must rest with it.

Mr. Rushforth: That is my impression of what has actually happened recently in London.

Dr. Trip: How can you say that the case would arise in practice? I can understand it in a highly developed bill market like London, but certainly in the first 10 years to come—and in 10 years you will have ample opportunity to change the Act—I cannot see that the Reserve Bank in this country would have any possible means of being hampered by this Section in their open market operations. If they have to restrict the currency they have only to sell their securities or to raise their bank rate. If they have to expand the currency they can do it at the published bank rate or even at a higher rate.

Mr. Rushforth: Presumably what actually happened in London was that in one week when they wished to stop the drain of gold they sold bills at the rate of 2 7/16. When their purpose was achieved the following week and money was very tight they did the reverse operation and bought bills at 2 5/16.

Dr. Trip: That can be of use in a highly developed market but not in this country. If the Reserve Bank want to make their rate effective their aim will always be to force the commercial banks to lower their rate, because the commercial banks will charge a higher rate than the published rate of the Reserve Bank. Then they can enter the market on the basis of their own published rate or even at a higher rate.

Mr. Khaitan: I quite agree that when the Reserve Bank wants to contract currency and has to sell bills it can do it at as high a rate as it likes, but Clause 47 would certainly stand in the way in open market operations, if the Reserve Bank wants to buy or rediscount bills of exchange in the open market at a rate lower than the rate published by it.

Dr. Trip: No, I do not think that the case would arise.

Mr. Khaitan: We shall come to that later on, but looking at Clause 47 as it is drawn up—it is of course subject to amendment. It says the bank shall publish from time to time the minimum rate at which it is prepared to buy or rediscount bills of exchange or other commercial paper eligible for purchase under this Act. A distinction may be attempted to be made in the fact that the word 'rediscount' is used here, whereas in clause 18 the word used is 'discount', whereas in clause 17 the word used is 'rediscount', but having regard to the word 'buy' used in clause 47, whatever distinction might otherwise exist between 17 and 18 to my mind disappears, and clause 47 would stand in the way of the Reserve Bank if it wants to go into the open market and buy bills of exchange or promissory notes at a rate lower than the minimum rate.

Chairman: You admit that?

Dr. Trip: Yes.

Mr. Khaitan: As regards the occasion, I believe when we were having our discussion before, I pointed out to you that even at the present moment there are occasions, and not rare occasions, when the rate of discount in the market is much lower than the Imperial Bank's published rate or even the rate at which the banks are prepared to discount bills from the market. Even now it happens, so that we don't have to stretch our imaginations too far to find occasions when the Reserve Bank may find it necessary to increase the currency in circulation in the country, by offering to discount bills in the open market at rates lower than what the Reserve Bank deems it proper to publish as its Bank Rate.

Dr. Trip: If the case arises, as you tell us, that the rates in the bazaar even are much lower, then why should the Reserve Bank want to expand the currency. I cannot see that there will be any inducement for the Reserve Bank to do that because there can be no reason to make money still cheaper?

Mr. Khaitan: There have been occasions, even in our experience, when although money is apparently cheap, still persons and firms carrying on *bona fide* trade are not able to get money from the banks. This has happened especially during the last 3 or 4 years in India and even then it may become necessary to increase the amount of currency in circulation and give *bona fide* traders very good security.

Dr. Trip: That is the credit position, not the currency position.

Mr. Khaitan: Whether you call it currency or whether you call it credit, it comes to the same thing.

Dr. Trip: It is quite a different thing. I think then the Reserve Bank can only do one thing and that is to lower the rate.

Mr. Khaitan: It is money flowing out of the Reserve Bank, the bank of issue, whether it comes out of its banking department or its issue department, and whether you call it expansion of credit or expansion of currency, it comes to the same thing. It is actual currency notes coming from the Reserve Bank.

Dr. Trip: But if that case arises then I think it is not the proper thing for the Reserve Bank to try to amend the situation by open market transactions. They ought to lower the bank rate.

Mr. Khaitan: If it comes to that then the rates should be lowered and only then should the Reserve Bank be able to do transactions at the rate it wants to.

Dr. Trip: Yes. You stated the case of credit difficulties when the traders could not get accommodation from the banks.

Mr. Khaitan: I have not made myself very clear. I tried to explain to you that because of currency difficulties it was necessary for more currency to come in.

Chairman: I think you have throughout been advising us that the discretion of the Reserve Bank in regard to its open market operations should be as little fettered as possible. Now, I cannot discuss opinions but if this relaxation was not provided for in the Act, or the bank's charter imposed that restriction, would it not be again putting a hindrance in the way of the Reserve Bank's open market operations? Here we are trying our best to remove anything in the way of the Reserve Bank in regard to its open market operations and to leave it absolutely to the judgment of the Reserve Bank to decide about the occasion, the rate and everything. From that point of view don't you think that the removal of this impediment would help the Reserve Bank? It may be that no occasion may arise and the Reserve Bank will not find it necessary to make use of the power. On the one hand, we cannot legislate for every occasion. On the other hand should the occasion arise the Reserve Bank would find itself fettered by that statutory provision. I may supplement what I have said by making this observation. When the Hilton-Young Commission made the recommendation it did not contemplate that the Reserve Bank would start open market operations immediately. It was stated then that, I think after 10 years, the Reserve Bank should approach Government and the Government would then authorise it to start open market operations. When the Bill was drafted it was considered that the Reserve Bank should be left unfettered in that particular matter. Therefore the provision in Clause (18) leaves it to the discretion of the Reserve Bank, but possibly when that change was made it was overlooked that if (47) stood in the form in which it was copied from the Hilton-Young Commission's report there would still remain some impediment. There might be cases in which the Reserve Bank might want to buy commercial paper at rates lower than its minimum. Well, that Statutory provision would stand in its way.

Dr. Trip: I should only like to say that I want to have the Reserve Bank as strong and as efficient as possible in this country. Therefore I made my proposals in my memorandum in order to achieve that aim. Of course I have no objection against the removal of the impediment mentioned by you, but I want to state that in my opinion this would be only an impediment if the position in this country was changed to such an extent that you could have here the same position as you have now in England and Holland where, generally speaking, the commercial banks discount at a lower rate than the Reserve Bank. So I think that as the situation is at present, this clause would be practically no impediment for the Reserve Bank.

Chairman: I have been discussing this in the meanwhile with the Vice-Chairman and he has suggested to me a form of words which will

remove his objection. I shall be grateful if my colleagues will take down the amended section:

> "The published rate of the Reserve Bank should be the minimum rate at which it is prepared to buy or rediscount first class trade bills and promissory notes of member banks and bankers, the Bank having full discretion in regard to the rates for its open market operations. To stimulate the use of bills, the Reserve Bank should use its discretion to charge a higher rate for demand loans against authorised securities and it may find it useful to have a larger margin between these rates at the outset than will be necessary after the bill market has developed. Should the Reserve Bank, in the first few years at any rate, find it necessary to discount the paper of the public without bank endorsement, it should consider whether it should not charge a higher rate of discount to the public than that charged to member banks and bankers."

Dr. Trip: I see only one objection and that is in the last sentence. It is said there that "Should the Reserve Bank, in the first few years at any rate, find it necessary to discount the paper of the public", whereas section (18) of the Act considers it as a standing possibility that the Reserve Bank can discount the paper of the public.

Chairman: I say in the first few years 'at any rate' because I don't want to stop its doing so later on. There is the document as it stands. Do you see any objection?

Dr. Trip: No.

Chairman: Is the first sentence acceptable, Mr. Rushforth? It will be the same except that your point has been brought in. I would now like to have the opinion of the members on the redraft as suggested by men in consultation with the Vice-Chairman.

Mr. Lamond: I would like to add the words "and promissory notes" after "first class trade bills" in the first sentence.

The suggestion of Mr. Lamond was agreed to and as suggested by the Chairman it was decided to put in a Note in the following terms:—"Trade Bills will include promissory notes arising out of *bona fide* commercial or trade transactions bearing two or more good signatures."

Lala Harkishen Lal: I agree to the substance of the draft but not to the wording.

Chairman: That is all what I want. We are not now writing the Report and at that stage we can discuss the terms of the wording in detail.

All the members present (including Dr. Trip) agreed to the redraft except Mr. Manu Subedar who desired to express his dissent from the entire clause.

Chairman: Now, we have another point to discuss. In your Memorandum on the "Money Market in India" you say that "Under normal circumstances the currency of that country will be preferred where the lowest rate of interest prevails and the money and bill market is so well developed that no doubt can exist about discount facilities being available at any time during the currency of the bill. These conditions are

lacking in India". Your statement with regard to India has been disputed. Some of my colleagues have said that in the majority of cases, say 75 per cent.—and Mr. Buckley said that it was quite a large number —the consideration does not apply.

Dr. Trip: May I ask, why not?

Chairman: With reference to what you have said there I have put it as a tentative recommendation, in my paper for consideration by the Committee, which reads:—"The introduction of Rupee Bills in connection with the import trade of India depends on the development of the inland bill and money market and on the rate of interest prevailing in the country. Under normal conditions the currency of that country will be preferred where the lowest rate of interest prevails and the money and bill market is so well developed that no doubt can exist about discount facilities being available at any time during the currency of the bill. These conditions are lacking in India at present".

Sir Purshotamdas Thakurdas: We were considering this point in the Chairman's draft which is an extract from your memorandum. The consideration that the rate of interest prevailing in this country should be cheaper than the rate of interest prevailing in other countries like London where there are more highly developed Money markets, is to my mind misleading. It is admitted that more than 50 per cent. of the import finance is being done by Indians who do not own their own business houses in London by which it can discount its paper there. They therefore have to do their business in the ordinary manner which is this. Supposing a dealer here buys goods worth £100 from Birmingham. The seller at the other end discounts his bill for £100 with a Bank in London. Supposing the bill was discounted on the 2nd January and when the draft arrives in India about the 20th January it is shown to the buyer here (drawee) who is asked to accept the bill 60 or 90 days after sight. Whether the bill is D. A. or D. P. does not really matter. When the bill is payable after 90 days, say on the 20th April, the buyer has to pay not only £100 but interest at 6 per cent. from the 2nd of January up to the date the remittance actually gets to London, *i.e.*, 18 days after the 20th of April. The rate of interest charged is 6 per cent. all the year round which is generally the normal Bank rate in India or a little higher. The importer therefore does not get the benefit because the bills are drawn in sterling and because the bills are not capable of being rediscounted in the London Market. In fact on a rough calculation made out yesterday, it was found that the Indian importer actually pays $7\frac{1}{4}$ per cent. because he has to pay interest both ways until the money gets back to London. Therefore it is misleading to say that the rate of interest is low and that is one of the reasons. I might add that it was mentioned that this is a matter between the buyer and the seller to decide. I agree. The other part of it is a matter of practical politics, but as far as this statement is concerned, it struck me that it is not correct.

Dr. Trip: I think the statement is correct in itself. I do not know whether the practice with regard to these import bills is in accordance with what ought to be aimed at.

Sir Purshotamdas Thakurdas: What I say is that the import business today is not based on consideration of the cheaper money rates prevailing in London. The question arose in connection with the creation of a Bill

Market in this country and what struck me aptly was that India has the necessary material practically begging at its door. India has an average of about Rs. 225 crores of imports which are financed on the sight bill basis. These bills are at present practically tied up by banks in their bill portfolio and are not used in this country because there is no Bill Market, in existence now. I have, therefore, endeavoured to put my ideas on this subject on paper which I have just now circulated to you. It reads:—

> "The introduction of rupee bills in connection with the import trade of India primarily depends on the innovation in connection with the currency in which the import bills are drawn and this will be dealt with under the head "Exchange Banks". It, however, requires to be noted here that with an import business on private account of approximately Rs. 230 crores a year, the correct bill market for this purpose is India and not outside India. This is particularly justified by the fact that even at the present time, when most of the import bills are being drawn in sterling currency, the rate of interest payable by the Indian importer is not less than six per cent. all throughout the year, which, with the interest payable on the remittance back of the money works out to a little over seven per cent. per annum. If the rate charged on the import bills by the Exchange Banks were based till now on the rate of discount in London, the argument regarding the Indian importer having to pay a higher rate of interest in the Indian discount market may require even to be considered. But under the existing conditions that does not require discussion."

Mr. Rushforth: May I circulate a note on this subject? It is a coincidence that I also brought a note on this subject this morning.

Mr. Rushforth's Note which was also circulated read as follows:—

"A manufacturer who sells goods to a foreign country payment for which is to be received in the currency of the foreign country—

(1) has to quote his price in foreign currency,

(2) has to take the risk of exchanging that currency into his own, at the rate at which he has based his price, or simultaneously with the sale of the goods has to fix exchange with his bank.

Take the case of a German who is negotiating a sale of goods to an Indian for shipment in June. The Indian insists on a rupee quotation payable by a 60 d/st. draft.

The German must ascertain the rate at which he can sell a 60 d/st. draft to his bank in June. He bases his price on that rate and offers the business accordingly. If it is accepted he must then fix his exchange or take the exchange risk himself. In the latter case he must certainly allow for the risk in his rupee price.

In the first place what quotation can he get for June 60 d/st.? Or will his bank inform him that the bank can only buy the bill payable at the Indian selling rate for marks or sterling at the date of payment? If there is only a small market for forward rupees in Germany it is fairly obvious that the rate of exchange on which the bank will base his quotation will have to be a very "safe" one. That is, suppose he understands that the sterling rupee cross rate for June is quoted at 1/5½ he will work on 1/5 7/16 keeping 1/16 in hand to cover his risk. His rupee price to the Indian will thus be higher than the price the Indian would have to pay if sterling had been quoted and the Indian had been able to fix his exchange at 1/5½.

It seems to me that the price of commodities as between two countries must be based on an exchange quotation obtainable for the date of shipment of the goods, and it must, therefore, facilitate trade if that quotation is obtained in the most favourable market and in a readily saleable currency. Otherwise one or other of the trading parties is giving away his profits to an exchange dealer.

I have often maintained that the forward exchange market in India is one of the best developed markets in the world. This is borne out by the fact that in connection with a large portion of the recent investments by foreigners in Treasury Bills, the banks in India have had the onus of fixing the exchange for the forward part of the business.

Generally speaking, therefore, it must be cheaper for import prices to be based on sterling and the exchange fixed here than it is to have the prices based on rupees with the exchange fixed in the foreign country.

The 6 per cent. interest charge to cover the period of the transit of the bill and its usance is an entirely separate charge which would be the same whether the price and the currency of the bill was rupees or sterling."

Sir Purshotamdas Thakurdas: Regarding the first part of Mr. Rushforth's Note, which I appreciate myself, I think it is a subject which we can usefully discuss when we come to deal with the Financing of Foreign Trade. I do not know whether it is pertinent for us to discuss the feasibility or otherwise or whether the import bills should be in sterling or not. We are now concerned only with the last paragraph of Mr. Rushforth's note as to whether the importer gets the benefit or not. On that point my answer is an emphatic "No". I therefore suggest that the reasoning made out by Mr. Rushforth is not correct.

Chairman: I am inclined to agree with the Vice-Chairman that so far as the interest rate goes the latter portion of Mr. Rushforth's note is alone pertinent for the present. It is, however, for Mr. Rushforth to say whether the first part applies or not.

Mr. Rushforth: The Vice-Chairman asks how does the Indian importer get the benefit of the interest which is involved in the bills being drawn in sterling or does he get any benefit at all? My immediate answer to that is "Yes", because if the bills are drawn in rupees, according to the argument that I have raised in my note, the imports would cost India much more than what it is today.

Sir Purshotamdas Thakurdas: I strongly differ, but that will take us into quite a different realm of discussion. May I ask whether these bills are really taken to the London Money market for rediscount purposes? Don't take into consideration the house-paper of people and concerns who have got their own houses in London. Does Mr. Rushforth imply that those bills are ever rediscounted in the London Market after they are accepted? What I say is that the discount market does not come into the picture at all.

Sir Hugh Cocke: Might we not hear what Dr. Trip has to say on this point?

Dr. Trip: In my opinion I absolutely maintain what I have mentioned in my memorandum. I think these bills belong to the Sterling market. I think it is more a question of practical difficulties that these bills have to be sent to India for acceptance and that they may remain in the portfolios of the banks here. The main point is whether in the interest of the country it would be possible to devise means in order to make these bills acceptable to the London money market. If that could be done, then the importer in this country could benefit from the lower rate prevailing in the London money market. I think it would be much better to follow the general principles, which I have stated in my paper, than to try in an artificial way to turn these bills into rupee bills. For then, of course, the interest rate would practically remain the same or even be higher. So on the whole I think the interests of the country would be served, if we tried to find a way to open the London money for these bills.

Mr. Manu Subedar: But is it not open at present?

Dr. Trip: No. The reason why it is not open is that these bills have to be transferred to India for acceptance. If we could avoid sending them from London to India, and if banks in London could see their way to accept them, the bills would be practically available for the London money market.

Mr. Manu Subedar: So the position is that the Indian importer has to pay interest charges and the interest charges paid by him are not at the London rate, but at 6 per cent?

Dr. Trip: No, therefore I think the first question is: do these bills in the London market which are drawn in sterling and sold practically to London banks not belong to London?

Mr. Khaitan: The bills come here not only for acceptance, but they remain here until the due date for payment.

Dr. Trip: Yes.

Mr. Manu Subedar: So that, even if something could be done by which they are discounted there, the collection will have to take place here, and the money will have to go from here to that country.

Dr. Trip: No, the exchange banks could collect the bills here in rupees.

Sir Purshotamdas Thakurdas: Or it would be this way. According to the system in vogue till now, the importer, who is not able to have his bills discounted in London, does not have any advantage by way of interest by having the bills in sterling.

Dr. Trip: No, but I think it is possible to change that. I think a recommendation that the banks should consider the opening of the London market to these bills would be of great value.

Sir Purshotamdas Thakurdas: If feasible.

Dr. Trip: I do not think it would not be feasible because these banks are practically paying the seller of the goods the whole sum covered by the bill and they take the risk of the bill. What would prevent the banks in London from accepting these bills on behalf of the Indian importer?

Mr. Buckley: Sir Purshotamdas mentioned that the bills were based on the rate of discount in London. I do not think that is right. The explanation of the 6 per cent. rate is this: The bills are not available for discount in the London market; they have to come out here and the banks, instead of giving their acceptance, have to find the money to pay for the bills. The only way the exchange banks can find the money is by taking deposits from the public in London. As the exchange business is considered by the public to be rather risky, the exchange banks have to pay higher rates than other banks in London. The latest advice I had from London in December showed that for renewals of all old money we were paying 4½ per cent. against the discount rate of 2½ per cent. I quite agree with Dr. Trip that something might be done to enable banks in London to accept these bills which are drawn by sellers who have not got their own houses here, so that the sellers could discount the bills in the London market, say at 2½ per cent. *plus* 1 per cent. per annum accepting commission for three months. Then in the normal course of events the buyer would get the advantage of that 3½ per cent. against six per cent. prevailing at the present time.

Sir Purshotamdas Thakurdas: Would I be wrong in taking it that if this was feasible the exchange banks would have adopted that policy?

Mr. Buckley: I have no objection to this going forward as a recommendation.

Mr. Manu Subedar: So far as the seller (European manufacturer) is concerned, the bill is usually discounted without recourse to the seller.

Dr. Trip: How can the banks pay the seller the full amount of the bills without recourse to him?

Sir Purshotamdas Thakurdas: Is the majority of the import business done on the basis of bills without recourse on the drawer?

Mr. Buckley: No. You can take it that the bulk of the import business to-day is done on a sixty days' sight basis without any credit at all and the bills are taken by the exchange banks simply on the strength of the drawer's name.

Mr. Manu Subedar: Take the case of an Indian importer in India who wants to buy machinery and who has made arrangements with the machinery sellers with regard to price and every other factor, including payment being made in the currency of the seller, but to meet the convenience of the buyer, he is still prepared to draw 90 days' bills, but he will receive payment as he has parted with the goods and he does not want to take the risk of the bill being dishonoured at this end. I have known such cases.

Mr. Buckley: They are exceptions and not the general rule. In the case of machinery shipped from U. S. A. for example, the American will not ship the goods without credit being opened. This not only applies to India, but to Dutch East Indies, China, Japan, Straits, etc. To-day in my Delhi Office I saw a dollar bill from New York with the 6 per cent. interest clause. I have no objection at all to the question being put forward to see if anything can be done to make finance cheaper for the Indian importer. But there may be some difficulty I am not aware of.

Chairman: Can you place before us any concrete suggestions as to how the practice is to be changed?

Mr. Buckley: My suggestion is this: could not the exchange banks in London, instead of advancing against the bills on a six per cent. basis accept the bills in the same way as they do for houses which have their own offices out here?

Dr. Trip: If the foreign exchange banks would accept these bills, the bills need not be sent to this country, but can be discounted in the London market at a lower rate.

Mr. Buckley: So that the seller of the goods or the drawer of the bill would be able to base the price he quotes to his Indian buyer on the discount rate in London *plus* the accepting commission prevailing at the time, say 3½ per cent. against 6 per cent as at present.

Sir Purshotamdas Thakurdas: That is an exchange question. We have only raised the question of import bills being available for the local discount market, and it has a place here only in that connection. I want a paragraph put in that the importer has not received the advantage of the lower interest rate prevalent in the London market. But it has been suggested to us that it might be feasible; the question will be considered in its right place under exchange, but if it is not feasible, it is to his advantage to make the bills available in the London discount market.

Mr. Buckley: At the present time owing to the London discount market rates being lower than in India, I contend they would remain sterling until such time as the level of interest rates in India is able to compete with London, and then I see no reason why the bills should not be in rupees.

Sir Purshotamdas Thakurdas: Either the importer here should get the benefit of the lower rate of interest or, if that is not feasible, there is no reason why these bills should be cut out from the local discount bill market. We want to create a bill market. We have got these practically waiting at our door, in fact we are turning them back. I personally think that we should point this out and say that unless this was available, the bills, being tied up for a period of two to three months, lying idle are a deadweight on the money market and to that extent a waste.

Mr. Buckley: If they have to bear 6 per cent. interest, it would be better for the country to have them drawn in rupees.

Mr. Manu Subedar: What is the position with regard to goods coming from Java?

Dr. Trip: The bills are mostly drawn in sterling from Java. If Java sells sugar, a confirmed credit is opened by the London bank and on that confirmed credit bills are drawn by the sugar exporter in Java and sold to the banks in the market at Java.

Mr. Manu Subedar: What happens when Bombay buys Java sugar?

Dr. Trip: The exports are generally financed in sterling.

Mr. Manu Subedar: If Bombay purchased Java sugar, the Java exporter draws on the Bombay man in sterling?

Dr. Trip: He draws on the bank which opens a confirmed credit.

Mr. Manu Subedar: Even for sales to India?

Dr. Trip: Yes, in my time that was the case, but now I hear that much sugar business is done directly without bills being drawn.

Mr. Manu Subedar: So that it is rupee bills that emanate from Java.

Dr. Trip: I am not certain, because in my time it was not done. I am under the impression that imports and exports are as far as possible cleared internally by big houses like Ralli.

Mr. Manu Subedar: Even for those exports the rate is 6 per cent.?

Dr. Trip: No. So far as bills are drawn in sterling they are purchased on the basis of the discount rate prevailing in London or even at a lower rate.

Mr. Rushforth: May I make a suggestion which was made to me by a banker in London when I was there? He quite agreed with the general principle that the rupee bill market in India might be based on these import bills, but he suggested that that was going to be possible by arranging for some of the larger houses here to accept the smaller merchants' names, so that the sterling bills could be paid off the moment they arrived with the rupee bills drawn by the smaller importer here on either a large importing house or a bank. By that way you automatically convert all your sterling import bills into rupee bills. It is one of the disadvantages from the point of the London market that you would have innumerable small bills here for the basis of a rupee bill market in India. Suppose an importer gets a bill for £150. He is being charged 6 per cent. until he pays off the bill. He knows that the bill is going to arrive on a certain date. He is a small piece-goods man; he arranges with a well-known firm for acceptance and he draws a rupee bill on that firm; the moment his sterling bill arrives, he discounts that rupee bill and with the proceeds he pays off the sterling bill. That rupee bill is in the Indian market on the due date.

Dr. Trip: Then you would have to finance the whole transaction at a higher interest rate than the London rate.

Mr. Rushforth: But you are getting your rupee bills here.

Dr. Trip: In my opinion it should be done at the cheapest rate and then only would it be to the good of the country.

Chairman: If it were possible to have a market in London, the sterling bill, instead of being sent out to India for acceptance, would be discounted in the London market, and the Indian importer may get the benefit of the cheaper market rate in London; that is a possibility. I confess I have not been able to listen to any concrete suggestion other than, if I may say so, the good will of the exchange banks, for changing the existing practice. Mr. Rushforth's suggestion, from the point of view of the development of a bill market in India, seems to be valuable particularly under local conditions in which the Indian importer does not get the benefit of

the cheaper money market rate in London. As I understood him to say, English business houses are willing to adopt an arrangement under which sterling bills would be forthwith converted into rupee bills and come out to India as rupee bills.

Mr. Rushforth: No; I want rupee bills to be created in India on the arrival of the sterling bills, so that the Indian importer, instead of paying for the acceptance credit in London, will let the present arrangement stand. He pays 6 per cent. for the period of transit, until the money market in India can enable him by drawing a bill to get funds at less than 6 per cent. He will then immediately pay off the sterling bill with the proceeds of his discounted rupee bill.

Sir Purshotamdas Thakurdas: Who draws the bill?

Mr. Rushforth: The importer draws the bill on some one he has made arrangements with.

Dr. Trip: It is much more expensive.

Sir Purshotamdas Thakurdas: The import bill is drawn by the seller who has an interest in drawing the bill. It is drawn on the buyer who again has a natural interest in the liability. You are freeing one of the parties. It will be a capital arrangement for the exporter because he will get his bill paid on the date it is presented.

Mr. Rushforth: He would presumably get a benefit in the price.

Mr. Khaitan: I could suggest a more easy way out of it, but the difficulty would be the liability of the drawer. It could be done if when a bill was drawn in sterling and accepted, the number of rupees could be written on it. It would become then a rupee bill. The difficulty will arise if on the due date the drawee does not meet the bill in rupees. The bank has then to go back to the drawer and he pays only in sterling and if there is a variation in the rate of exchange, the bank stands to lose.

Sir Purshotamdas Thakurdas: The rupee liability of the holder of the bill is not met.

Mr. Khaitan: If it is not met, the bank can only get the specified number of pounds from the drawer and there may be a variation in the rate of exchange. Under that scheme the drawer continues to be liable but in pounds, and the bank has the risk of variation in exchange which it would not be prepared to undertake, but under your scheme you are releasing the drawer absolutely.

Mr. Buckley: If the Indian buyer can get the seller on the other side to quote his price in rupees, instead of in sterling as at present, there is no reason why the bills should not be drawn in rupees. As I have said, we do get rupee bills occasionally.

Sir Purshotamdas Thakurdas: But I submit that we need not discuss that point here. All we are concerned with here is the fact that if the Indian bill market be starved of the natural raw material available to them, it benefits nobody and it keeps the discount market here out of what is its first right and claim. I only want that to be put in.

Chairman: I fully realize that. I allowed the discussion to continue for this simple reason: Dr. Trip first said that this might be a solution and in my own mind I wanted to make it clear whether that was a

feasible solution or only a pious wish depending on the good will of somebody. I did not want to summon him again when we were further pursuing the matter in connection with the financing of foreign trade. Therefore, I said that my colleagues who wanted to ask him any questions on the general proposition might do so now. It is quite possible we are not going to come to a decision on the matter now. So far as I am concerned, I put him one question, *viz.*, whether he had an alternative and how he could get it, and I understood him to say that it would depend on the good will of certain parties. If the good will is not there, the custom will not be changed. It depends on them to change their custom. The only recommendation we can make in that direction is that we hope this will be done. We cannot go beyond that.

Dr. Trip: For any solution that you think would be possible you will always be depending on the co-operation of somebody else, either the seller, the buyer or the bank.

Chairman: But what I wanted to find out was whether there was anything more concrete than that.

Mr. Rushforth: I think the statement about 7 per cent. is incorrect.

Mr. Manu Subedar: The drawee pays interest for the 90 days usance *plus* 18 days one way *plus* 18 days the way back.

Mr. Rushforth: For the last 18 days he gets the benefit of 1/32nd in exchange. It works out at 3½ per cent.

Mr. Khaitan: Most bills are, as Mr. Buckley has said, for 60 days. The interest rate comes to much more than 7 per cent., and we only say here a little over 7 per cent.

Mr. Buckley: He can remit the money by T. T.

Mr. Rushforth: There is no compulsion as to how the remittance should be made.

Mr. Khaitan: What he could have done is quite a different thing. We are now studying what is actually happening in India.

Sir Purshotamdas Thakurdas: In actual practice, I am told the importer remits by D./D.

Mr. Rushforth: It works out at 6·14 per cent. 1/32nd for 20 days is about 3½ per cent. p. a. He is paying 6 per cent. He is losing 2½ per cent. p. a. on 20 days. It is 6·14 per cent. p. a.

Mr. Manu Subedar: You are charging him for the 18 days at the same rate. He has had the use of the money for the usance 60 days and the 18 days the bill takes to arrive here. But he has not had the use of the money for the additional 18 days.

Mr. Khaitan: The interest you charge him for the additional 18 days is about 25 per cent. If I added this to the 6 per cent. the actual calculation will be 7·4 per cent.

Chairman: If it is 90 days usance it will be over 8 per cent.

Mr. Khaitan: We cannot take 90 days.

Mr. Rushforth: He is losing 6 per cent. for 20 days. I am taking the journey back again. 6 per cent. for 20 days is ·32. He is getting 1/32nd benefit on the exchange. The actual loss is ·13.

Mr. Khaitan: If it is a 60 days' bill he pays for 78 days which is the necessary period. He also pays interest at 6 per cent. for another 18 days.

Mr. Buckley: He could pay the money straightaway by T. T.

Mr. Khaitan: Let us take 1/32nd. It comes to ·173. Take this from 7·4.

Mr. Rushforth: 7·4 is per annum while ·17 is for 20 days. 1/32nd is an actual difference while ·17 is the percentage difference for 18 days.

Mr. Manu Subedar: Suppose the document comes to this country and it is a D./D. and the drawee pays the money at once. He still pays for 18 days for the money to go back. It is aside the document.

Mr. Rushforth: But there again he gets 1/32nd on his exchange. I do not see how you can separate it.

Sir Purshotamdas Thakurdas: We will say a little over 6 per cent.

Mr. Rushforth: I am convinced that it is only a very small percentage.

Sir Purshotamdas Thakurdas: What does the actual work to?

Mr. Rushforth: 6·14.

Mr. Buckley: There is one thing I cannot subscribe to. It is the sentence reading:

> "If the rate charged on the import bills by the exchange banks were based till now on the rate of discount in London. . ."

It is not so.

Sir Purshotamdas Thakurdas: "*As* the rate.....Banks *is not* based on the rate of discount in London . . . .".

Chairman: Is that acceptable?

Mr. Lamond: The only cheap way of using these bills is to use them in the London money market. Here he says "It requires to be noted ..... not outside India".

Sir Purshotamdas Thakurdas: I would not put this in if to-day we had a scheme ready before us to make the importer benefit by the lower rate in the London money market. It is only a pious wish.

Mr. Lamond: You would not say, 'It would ordinarily appear that the correct bill market is India.' It is making a definite statement.

Sir Purshotamdas Thakurdas: Unless the exchange banks could show that by having the bills drawn in sterling the importer may be benefited by the lower rate.

Mr. Lamond: The only cheap way of doing this is by using the bill in the London money market.

Chairman: It has been urged before us that with an import business on private account of approximately Rs. 230 crores a year the correct bill market for this purpose is India and not outside India.

Lala Harkishen Lal: It is beyond me.

Dr. Hyder: I think this country must have one of two things: either a low rate or a bill market. That is all. I accept that.

Mr. Manu Subedar: I accept.

Mr. Sarker: I accept.

Chairman: Therefore, it stands.

Dr. Trip: The clause that the correct bill market is India implies, I think, that you want to have these bills drawn in rupees.

Chairman: That is so.

Dr. Trip: It depends on the seller. The most important point for this country is to use the London money market.

Chairman: We will take that under "Foreign trade Financing." We do not commit ourselves to that statement.

Amendments suggested in the draft para.—

3rd line—

Read, 'feasibility of the alteration of' for 'innovation in connection with.'

15th line—

Read, 'over six per cent. per annum,' for 'over seven per cent. per annum.'

Read, 'As the rate charged' for 'If the rate charged'.

16th line and 17th line—

Read, 'is not based' for 'were based till now'.

19th line and 20th line—

Read, 'need not be considered' for 'may require even to be considered.'

5th March 1931.

FINANCING THE CURRENT NEEDS OF AGRICULTURE.

By Dr. A. Friederich.

About 230 million people or 73 per cent. of India's population (according to the census of 1921) are supported by agriculture. It is the first source of India's economic life. In our opinion its future development to a large extent depends on the creation of prosperous agriculture. A large percentage of the Indian cultivators is at present deeply in debt. There are many reasons for this. The principal question with which we have to deal is how to supply cheap and suitable credit to them in order to finance their activities and improve their conditions.

The supply of cheap credit, even credit without interest, is only of advantage to the agriculturist if production is, or can be made, profitable and his indebtedness decreased. Cheap credit alone will not produce sound agriculture in India. The social and economic conditions of the cultivator are—according to our information—so unfavourable that it is difficult for him to obtain a net profit and so to get rid of his debts. That is the main reason why the question of financing Indian agriculture is a difficult problem.

Some of the unfavourable conditions may be mentioned here:

1. Uncertainty concerning most crops in parts of India owing to drought conditions.
2. System of land tenure.
   - (*a*) Prevailing tenancy system.
   - (*b*) Small size of holdings and their fragmentation.
   - (*c*) Insufficient legal protection of the tenants with regard to terms of lease.
   - (*d*) Joint family system.
3. Inefficient marketing of produce.
4. Illiteracy.

An energetic agrarian policy of reform is necessary for the purpose of creating *profitable* agriculture under modern conditions. Unless this is brought about credit will remain weak and in consequence the command of cheap money beyond the power of the ryot. Government have undoubtedly done good work for agriculturists with regard to consolidation of holdings and irrigation of land by canals and sinking wells. Nevertheless the field of activity in this direction is still very large, even apart from the area which is still available for the purpose of creating further settlements.

The chief agencies for loans to agriculturists have been—

- (*a*) Moneylenders (both professional and non-professional, including landowners, merchants, traders and other casual moneylenders).
- (*b*) Co-operative Credit Societies.
- (*c*) Government (takavi).
- (*d*) Commerical banks and bankers.

Our task is to examine the most suitable agencies. We have to bear in mind the special features of agricultural requirements as compared with industry, commerce and trade. The period for turning over invested *working* capital in agriculture is longer than is usually the case in commerce. Agriculture also requires a relatively high fixed capital (compared with the working capital) to be sunk for long periods, for instance in:—

(*a*) Land Improvements (irrigation and wells).

(*b*) Purchase of Land.

While working capital for agriculture is required for at least a period of 6 months to one year, capital for land improvement and purchase has to be invested for an indefinite period of years.

A repayment of the invested capital can only be made according to the net profits obtained from the investments. Credit agencies for agriculture have to accommodate themselves to its special requirements. Fixed credits for long term loans to agriculture cannot, therefore, be a field of activity for *commercial banks*. It is only the supply of short term credits for financing the current needs of agriculture which is suitable for Commercial Banking.

On the other hand, commercial banks can only in their own interest deal with more substantial people than most agriculturists in India are and must realise their money advanced in a shorter time than the average agriculturist is able to comply with. With regard to this divergence between commercial banking and agricultural credit, it is difficult to see how under Indian conditions commercial banking can develop banking relations to any appreciable extent direct with the cultivators.

The *moneylenders* (professional and non-professional) have up to now been the chief agency for financing the Indian agriculturist. They have undoubtedly rendered a valuable service to agriculture. On the other hand they charge relatively high rates of interest, especially from those people who cannot give any substantial security, in other words, from the poorest and the weakest people. It may be conceded that these high rates are equivalent to the risks run by the lenders. On the other hand, loans are not usually being advanced on grounds of generosity or philanthropy, but for making profits. We are of the opinion that it is urgently necessary to protect the agriculturists against usurious moneylenders. We do not think that the aim can be achieved by strengthening the "Usurious Loans Act of 1918".

The best weapon against the usurious dealing of moneylenders is undoubtedly the *co-operative movement*, both credit and marketing. The experience of other countries, especially in Germany, proves this. The Governments of the provinces in British India have been making the utmost endeavour to expand the work of co-operation in their respective Provinces for the last 25 years. Notwithstanding the efforts made in British India only about 15 million people or on an average 6 per cent. of the total population of about 247 million people have up to now been touched by the movement. All possible endeavour should be made to make the co-operative movement more efficient. Co-operative credit societies are decidedly the most suitable credit agencies for financing the

current needs of the agriculturists. This has been the most useful and successful work of the co-operative movement in many European countries and especially so in Germany. The special structure of the co-operative organisation based on self-help enables it to provide relatively cheap short term working capital. It is a fundamental principle of the co-operative credit business to procure the requisite means by collecting call and fixed deposits from members and non-members. The accumulation of share capital and reserves is of the greatest importance for the financing activity of a co-operative society, but it can only play a second part with regard to the limited means of the members. It is due to this that the co-operative credit societies are not able to supply to a large extent long-term credits to agriculturists. It may, therefore, be said that it is necessary for the Indian co-operative credit movement to draw its fullest attention to the development of short term credits, *i.e.*, the supply of working capital. Business on a larger scale in long-term credits makes it impossible for the society to finance current credit needs and to repay promptly deposits when required.

Long-term credit to agriculture for land improvement, purchase of land, etc., requires special institutions. We shall deal with this in a special paper. Here it may be stated that co-operative credit societies which collect deposits are not suitable agencies for the supply of long-term mortgage credits. It is, therefore, wrong to expect that co-operative credit societies can discharge to a great extent the old debts of the agriculturists due to the moneylenders.

It will be a task of the banking institutions for *long term* credits to consider the possibility of taking over old debts of landowners and thus enabling them to repay their debts within a reasonable period. It is only through efficient mortgage banks that the problem of discharging the Indian agriculturists' old debts will be solved and only under the above-mentioned condition that the agricultural production is or can be made profitable.

What has to be done to make the co-operative credit movement more efficient for its principal task of supplying cheap working capital? In this respect we have to make the following main proposals referring to the various defects of the co-operative system stated in the Provincial reports.

I.—Primary Local Societies.

(1) The first fundamental principle of co-operation is *self-help*. All possible endeavours should, therefore, be made throughout India to make the local society a self-supporting institution, more or less independent of the credit of the central banks. The local society should make every effort to collect all free money available in its district of activity. Thrift has to be induced and promoted mainly by education. The local society has, as in other countries, to become the "savings and loan" bank for the village, the balancing centre for demand and supply of money. Up to now the primary societies are in nearly all provinces, with the exception of the Bombay Presidency almost exclusively only agencies for the distribution of money supplied by the Central and Provincial Banks. That is an

unsound position. By good management and thorough audit preventing failures of co-operative credit societies confidence will be inspired and investors will be induced to deposit their spare money with these societies. A reasonable rate of interest allowed on deposits, especially on savings, will promote the saving habit. With regard to primary societies, we are of opinion that low debit rates of interest can only in course of time be obtained by starting with relatively high credit rates. In this respect we suggest that members should on principle receive a somewhat higher rate of interest on deposits than non-members. This will induce many people who now lend out money to deposit it with a solvent credit society so that the debit and credit rates can automatically be lowered according to the increasing supply of money. It is wrong in our opinion to start with low credit rates in order to get low debit rates. Low credit rates will maintain the moneylending business of individuals possessing money. We are not in favour of the policy of Co-operative Departments of Provincial Governments standardizing the rates of interest for deposits and credits in the credit societies throughout the whole province. This may hamper the activity with regard to the deposit business.

(2) More *self-administration* and *self-responsibility* for the local society according to the co-operative idea,

(*a*) We propose to give the Managing Committee (consisting of 5-6 people) more power with regard to the management. Fixing credits for each member should not be a matter of the "General Meeting" but of the Managing Committee in accordance with a special "Supervising Board" consisting of 3—6 people. A special task of the General Meeting shall in this respect be—

(*aa*) To fix the maximum credit limit up to which credit may be granted to members in so far as good securities are procured and the character of the applicant is satisfactory.

(*bb*) To sanction credits to members of the Managing Committee and the "Supervising Board".

(*b*) It shall be laid down in the Co-operative Societies Act and the By-laws that the members of the Managing Committee and "Supervising Board" are jointly and severally responsible for credits granted without the requisite care.

(*c*) A "Supervising Board" with the task of supervising the management shall be prescribed by the co-operative law. A special task of this Board shall be to fix credits and examine securities in consultation with the Managing Committee. This Board would be of the greatest importance for urban societies with a bigger number of members.

(*d*) Every possible endeavour should be made by the Co-operative Department or by the undermentioned "Auditing Unions" to get a well-trained Secretary and Treasurer for each society. They shall receive a fee according to their work. The experience in other countries of employing schoolmasters and retired officials in these capacities has been very satisfactory.

(3). Membership must not be confined:

(*a*) To a special creed, caste or calling, to agriculturists or a special class of them. Artisans, small traders, retired officials, etc., may be included.

(*b*) To a certain maximum number of people (Bengal 50, Bombay 100). The creation of credit societies with less than 25 members cannot, however, be advocated.

(4) Greater elasticity of credit.

(*a*) We think it necessary that credit limits and the requisite securities should be fixed for each member—requiring credit—at once at the beginning of a new business year. In case of real need money should be advanced within the fixed credit limits and according to the means of society. Loans should not be given in one lump, but successively according to the needs of the debtor. Granting credits on current account and cheque transactions may be introduced in advanced societies.

(*b*) Repayment of credits should not be restricted to the same period for all debtors but should be fixed according to the special needs of the members. The period of repayment of short term credits should not under any consideration exceed 2 years.

(*c*) The Managing Committee and Supervising Board must be allowed to lend out repaid money to members without asking the Central Bank.

(*d*) Every co-operative credit society with deposits has to keep a reasonable cash balance with a Central Co-operative Bank or should always have line of credit with it for repayment of deposits.

(5). A Co-operative Society has to be free of politics. (see Madras Report page 162).

II.—Central Co-operative Banks.

Central Banks should be the balancing centres for the primary co-operative credit societies and the financing institutions for other kinds of societies (for instance, supply and marketing societies) in so far as financing cannot be done by primary local societies. In order to make Central Banks efficient for this task we propose—

(1) Exclusion of individual members with the exception of the Managers of Central Banks who have to become members. This proposal will suggest that no credits shall be granted to individuals.

(2) Limited liability with a "Reserve liability" of about 5—10 times the share. No share under—say Rs. 300.

(3) The working sphere of a Central Bank should be neither too small nor too large. The ideal would be one Central Bank for each political district. Long distances and bad means of communication may, however, make it necessary that more than one Central Bank should be established in that area. Consideration, however, might be given to the possibility of establishing pay offices under such conditions in preference to starting other Central Banks. If it can be avoided, we are not in favour of starting several Central Banks in a political district.

(4) All money transactions with primary societies should be done and credits should be granted on current account in order to speed up the activity between the primary societies and the Central Banks. Dealing in cheques and clearing instead of ready money should be promoted.

(5) Top balancing has to be done with a Provincial Co-operative Bank.

(6) The Management of a Central Bank should be in accordance with businesslike and co-operative principles. Managers of the best character, well-trained in banking and co-operation are essential.

(7) The joint interests of the Central Banks of a Province should be promoted by common meetings held several times a year.

III.—Provincial Co-operative Banks.

(1) These shall be the Apex Banks for the co-operative movement of a Province. They have to link up the general money market and commercial banking with co-operative banking. For this reason, under normal conditions, they should not deal with primary credit societies (to be found in the Bombay Presidency) but only with Central Banks.

(2) We are in favour of the establishment of a Provincial Bank for the United Provinces.

(3) We are not in favour of Provincial Co-operative Banks being established under the Co-operative Societies Act with regard to the liability of primary societies and Central Banks to the Provincial Banks. The failure of a Provincial Bank under such conditions might very seriously affect if not indeed destroy the whole co-operative movement in a Province. Provincial Banks should, therefore, be transformed into registered companies with the financial participation of the Provinces. This suggestion is based on the experience in Germany.

(4). An Apex Bank for the co-operative credit movement has to be managed on ordinary business principles with this proviso that the business has to be accommodated to the special requirements of co-operation.

(5) We are against co-operative Apex Banks' advancing loans on long-term mortgage credit. We cannot approve of the issue of mortgage debentures as is done in Bombay, Madras and the Punjab.

(6) It is a special task of the Provincial Banks to develop facilities for the transfer of money on behalf of the co-operative movement (clearing system).

(7) We see no need to start an "All-India Co-operative Bank".

IV.—Audit of Co-operative Societies.

It is of the greatest importance to have a thorough *audit* in order to prevent bad management and embezzlement, and to make the co-operative work so efficient as to inspire the confidence of the investing public. The audit prescribed by the Co-operative Societies Act, 1912, has up to now, as a rule, been effected by Government Officials. There are, however, exceptions—in the Punjab for instance the audit is being performed by officials of the Punjab Co-operative Union Ltd., under control of Government officers. With regard to lack of auditing Government staff in Bengal "many societies were audited by the supervisory staff of the Central Banks" (Bengal Report, page 152). In some Provinces special *supervising* Unions have been formed, as for instance in Bombay and Madras. In other Provinces for instance Bengal—referred to above—Central Banks are supervising the affiliated co-operative societies. Several reports express the opi-

nion that the legal audit of co-operative societies has not been efficient enough. Reasons have been indicated. As a serious drawback must indeed be considered the frequent change of Registrars responsible for the audit and of other high Government officials in charge of the co-operative movement. An efficient Governmental audit would require that the Provincial Governments keep a special staff well-trained in co-operation, the different activities of the various kinds of co-operative societies, in book-keeping and in audit. *The position of a Provincial Registrar should be filled only by officials well-trained and experienced in co-operation.* Considering these points and the efficiency of the auditing system of Auditing Unions of European countries like Germany, Austria, etc., we suggest that Provincial Governments should form special Auditing Unions for each political District with at least, say 500 co-operative societies—otherwise one Union for 2 Districts—and join all District Unions of a Province to an apex Provincial Union.

The Auditing Unions in the countries referred to above are registered associations formed by the co-operative societies, central and primary, credit and other kinds of societies within the working district of the Union. These Unions with the purpose of effecting the "legal" audit of the affiliated co-operative societies have to be licensed by the Government. The latter shall be informed of and are always allowed to attend the General Meetings of the auditing Unions. The license conferred on a union can be withdrawn by the Government in case that union does not discharge its duties with regard to auditing the affiliated co-operative societies. There is, however, no interference in the management of such a union. It combines in its activities both audit and supervision of the societies, training a special staff for this purpose and all work connecting with promoting co-operation.

Taking into consideration the special conditions of India, we are of opinion that the above proposed Auditing Unions should be managed by special trained Government officials. The staff of these unions shall, however, be employed and paid by them. In order to make the official management more efficient we propose:

(*a*) The societies, primary and central, affiliated to such a union should be represented in the Managing Committee.

(*b*) Special non-official Advisory Boards for the most important activities of the affiliated societies should be formed and heard on important questions by the Managing Committee.

The most important tasks of the Auditing District Unions shall be:—

(*a*) Audit of the affiliated primary societies.

(*b*) Supervising and advising the existing societies.

(*c*) Forming new co-operative societies according to the needs of the population.

(*d*) Training a special auditing, supervising and advising staff for co-operation.

(*e*) Training Secretaries and Treasurers for primary societies.

(*f*) Expanding the idea of co-operative work especially by attending meetings.

The future success of the co-operative movement in India will more or less depend on a thorough audit requiring a well trained staff from the bottom to the top. Most careful attention should, therefore, be devoted to the tasks mentioned under points (*d*) and (*e*). People with the best qualities of mind and character are essential. It should be a rule that no auditor without thorough apprenticeship, no inspector or a higher official of a union shall be employed without having passed the lower stages of co-operative work.

There should be a *close connection between Auditing Union and the affiliated Central Bank(s)*, an interchange of important reports, statements on primary societies in order to avoid a second supervision of them.

The *Provincial Unions* as the apex of the District Unions should be run as well as the latter by Government officials with the Registrar at the top. He shall be assisted by a Financial Adviser and a Chief Accountant proposed in another paper. The staff should be non-official, employees of the unions. The Managing Committee shall be supplemented by representatives of the District Unions and the Provincial Co-operative Bank.

The main tasks of the Provincial Unions should be—

(*a*) Supervising the affiliated District Unions by collecting information, looking after their work, giving advice and instructions, thereby taking into consideration the special conditions of the Districts.

(*b*) Audit of Central Banks and other central co-operative societies.

(*c*) Representing the whole co-operative movement of a Province and attending to its interests.

(*d*) Arranging meetings of the Managers of the District Unions, Central Banks and other central co-operative societies in order to deal with special subjects of the actual co-operative work. The meetings should be held at least every three months.

(*e*) Special Committees with advisory power should be constituted for the most important subjects of co-operative activity, especially for—

Auditing.

Co-operative Credit.

Co-operative Marketing.

The members of these Committees should be officials and non-officials.

(*f*) Instituting special departments for statistics and for the forms and books required by the societies of the affiliated District Unions.

(*g*) Publishing a Magazine in order to spread the co-operative idea and to bring forward the co-operative work.

The various Provincial Unions in India shall have their apex in the "*Central Co-operative Council*", proposed in another paper—This Council should serve the common necessities of the co-operative movement all over India.

The Co-operative Societies Act, 1912, should be amended in accordance with our proposal of forming "Auditing Unions".

Financing the Unions.—The expenses of the *Auditing District Unions* have to be covered by contributions from the affiliated central and primary societies.

The Provincial Unions, shall be financed by contributions of the District Unions and the Provincial Banks. For the first few years it may be necessary that the Co-operative Unions should be subsidized by the Government.

V.—General Remarks.

The future efficiency of the co-operative movement in India will depend first of all on the activity of the leaders and their feeling responsibility. Attention should especially be paid to creating a well based, consolidated, self-supporting co-operative credit movement. Not the number of societies in a Province is decisive but their efficiency. Inefficient societies discredit the co-operative work. It is not so difficult to form societies as to run existing societies on sound lines. If the efficiency of the co-operative movement in India is to increase to the same extent as the number of societies has been increased in the times gone by, then hard work will have to be done. Full assistance of the Government, active and financial help for the necessary organising work will probably be necessary. It should, however, be the aim to create a self supporting and responsible co-operative movement. Co-operative work will encounter great difficulties, as it has in the past, which can only be mastered by energy and patience.

Co-operative work will considerably be forwarded by the efforts of the Government to establish in the villages primary schools for removing the illiteracy of the people.

In financing Indian agriculture, the *Government* will always have to help in times of emergency in consequence of crop failures. Special fields of Government's activity will also remain, land improvement by consolidation and irrigation and settlement of people.

As we have pointed out Credit Co-operative Movement will and can do the best work in the supply of short term credit in order to finance the current needs of the affiliated members. The Co-operative Movement in India will improve and remain sound if it concentrates on this task, remembering that co-operation is not only of the greatest economic but also of ethical and moral importance for tiding over social and economic contrasts.

Chairman: Before we start it would be very useful from our point of view if Mr. McDougall and Dr. Friederich could let us have a statement showing their itinerary on which their conclusions are based. I am making this observation more with reference to Mr. McDougall's paper which contains statements which may in the end bring us in conflict with some provincial Governments. We would like to know what was the extent of their tour and the local investigations on which their observations are based. Will you kindly let us have a statement showing the itinerary and the time spent at each place, and things of that sort?

Mr. McDougall: That is a very reasonable request to make, Mr. Chairman, but at the same time I am afraid it would open us to attack in our criticisms of the existing organisations as we see them. They may be quite justified in saying 'well, you only spent a week end in Bombay, or in Madras, and it was not long enough to give you a correct idea of the existing conditions'.

Chairman: I do not see that you are not justified, but my difficulty is that that will be published and provincial Governments will say 'we want to know where these experts went and what they saw.' When any report is submitted, the extent of the tour is indicated in the report. The provincial Governments might say that they were not consulted about these things.

We will proceed today with Dr. Friederich's paper. All the members of the Committee have had opportunity of studying that fully and the procedure will be the same as you had before. I shall give every member to start with half an hour, and he can discuss with Dr. Friederich in that time any points arising out of his paper.

Dr. Friederich: May I propose some small changes in my memorandum? First on page 3, 2nd paragraph, in the sentence "It may be conceded that these high rates are equivalent to the risks run by the lenders" carry straight on with "and loans are not usually being advanced on grounds of generosity . . . . . ." In the next sentence I want to put "however" after the words "We are". On page 6 a sentence may be added at the end of paragraph 3 —"It might also be considered whether and by what means the present organisation could be adjusted as far as possible to the ideal mentioned above".

Chairman: There is something in Mr. McDougall's note, the connection of which with the paper I find it difficult to understand. That is pages 14-15.

Mr. McDougall: When we were in the Punjab, we made investigations into the methods of assessing the value of land from the point of view of giving loans and I asked one of the officials in the Punjab to give us a statement as to the procedure adopted. I thought it might be of interest to one or two members of the Committee if it was included. It has really nothing to do with my paper.

Mr. Ramdas Pantulu: With regard to your statement on page 2, will you kindly explain how commercial banks can finance the current needs of agriculture?

Dr. Friederich: To a certain extent by giving credits on current accounts. It is quite possible that an agriculturist may be satisfied by a credit for a short period, say 3 to 4 months. On page 3 of my paper I have stated,

however, that commercial banks are not especially in favour of giving such credits to small cultivators. But you can find even in my country that commercial banks give short-term credits to a small extent to bigger agriculturists.

Mr. Ramdas Pantulu: I was trying to find out whether you were contemplating direct accommodation to agriculturists or through co-operative banks.

Dr. Friederich: I am of opinion that co-operative societies are the best agencies for financing agricultural needs.

Mr. Ramdas Pantulu: When we approach the commercial banks, they say that it will not be possible to spare the resources for a number of borrowers, therefore, I was wanting to know whether you were thinking of some financial accommodation under such conditions to co-operative banks so that they may use the money.

Dr. Friederich: You have accommodations in your country between commercial banks and central banks. I am of opinion that central banks should on principle deal only with provincial banks. The latter have to do commercial banking, but only to the extent of enabling them to provide for the means which are necessary for financing central banks, and on the other hand to invest surplus funds. It is wrong for instance, to invest money in industries, etc. That would imply a danger. In my country a co-operative apex bank, the "Deutsche Raiffaissen Bank" had recently to be liquidated in consequence of giving credits to industries.

Mr. Ramdas Pantulu: I am not thinking of the co-operative banks financing industries. I was thinking of co-operative banks giving accommodation. Supposing we have a certain produce and put it into godowns and obtain proper insurance receipts. We take these documents to a commercial bank and ask them for accommodation for 6 months. Do you think there is any objection to our resorting to commercial banks?

Dr. Friederich: On principle, yes. In my country it is a principle that central banks should deal only with apex banks. But nevertheless, most central banks have accounts with commercial banks, especially for clearing business than to keep cash balances, some have even discount credits, to a certain extent, for cases of emergency. But usually they do not deal with commercial banks.

Mr. Ramdas Pantulu: I quite agree that generally speaking, central banks ought to go to the provincial banks for accommodation and as matters stand at present the provincial banks have sufficient funds to lend to the central banks, but I am really thinking of conditions under which co-operative marketing has developed in this country and large sums of money will be required by the central banks to finance these marketing operations, in which case I do not think the provincial bank will be able to finance. In a particular year, say, we have demands for 60 lakhs for loans on central banks and we have not more than 10 lakhs. Produce is held up on account of low prices. Do you propose that the provincial bank alone must go to a commercial bank like the Imperial Bank or a big joint stock bank or will you allow central banks to borrow and lend to the societies and the members to finance the local market?

Dr. Friederich: I am of opinion that it is a matter for the provincial bank to supply the money which is required for financing the needs of co-operative banking. It is really necessary to have certain principles. In

my country most central banks have limited credit facilities with our Reserve Bank, "Reichsbank" and commercial banks according to the means. That is always a help for central banks, more or less for emergency, in case they are not liquid enough and shall supply money within a very short period.

Mr. Ramdas Pantulu: On page 3, paragraph 3, you speak of short term and long term credit. You have divided co-operative credit into short and long term. Then you go on to long term credit in the last paragraph of the page. On page 5, 4 (*b*), you say that the short term credit should not exceed two years. It is found by experience in this country that short term credits of the kind you contemplate would not finance agricultural industry. They also want intermediate credit which cannot be repaid for a year or two but which requires, 3 or 4 or 5 years, from a series of harvests, for purchasing costly goods, for sinking wells, for effecting some substantial repairs or to set up irrigation plant, etc. These loans cannot be repaid within two years. It is generally thought that not only short term credit but also intermediate credit should be supplied by the co-operative societies. Have you considered the question of intermediate credit at all?

Dr. Friederich: I have considered it. Two years' credit may really be called short term for agriculture, but if you measure from a commercial banking point of view, a short term credit is a credit for 3 to 6 months but no longer. Short term, intermediate, long term credits, these are only definitions. In my paper I wanted to signify a short term credit up to, say, two years. Credits given for a longer period may be defined as long term credit, in accordance with special long term agricultural needs. I wrote here "for an indefinite period of years". I wanted to say from two years up to 20 or more years.

Mr. Ramdas Pantulu: So I understand that what I call intermediate credit is included in your long term credit?

Dr. Friederich: Quite so. I am of opinion that the so-called "intermediate" credits for 3 to 5 years should in India be given by mortgage banks. I quite agree with you that in many countries the co-operative credit societies supply what you call intermediate credit. Even in my country they did it in pre-war time and do it to a certain extent at present. They gave and are giving credits up to, say, 5 years. If the co-operative credit movement in India would be strong enough and would have the means, I should tell you that to a certain extent there is no danger in giving this intermediate credit, but at the present stage—and I am convinced that this stage will last for about 10 years or perhaps longer—your primary co-operative credit societies are in my opinion, not in the financial position of giving intermediate credit. You may have societies which have deposits enough to give intermediate credits. I have no objection to that. On the other hand, you must have certain principles. I cannot deal with every individual local society. I am quite convinced that everywhere the conditions are different.

Mr. Ramdas Pantulu: I understand you right, you think that normally co-operative societies in this country should give short term loans for periods not exceeding two years for current agricultural expenses? If any particular society is strong enough financially, it may give intermediate credit, but under no condition longer?

Dr. Friederich: No. Otherwise you have the danger that money is tied up in long term credit and central banks have not enough money in order to finance societies which are in want of credit.

Chairman: Dr. Friederich, if I understand you correctly, you said that you are not in favour of the co-operative societies giving intermediate credit because they lack the means. If they had the means, you would not object to their giving credit? I think in your paper the point is not appreciated that the means are there and because they cannot utilise their resources fully in meeting the demands on them they have to invest at present largely in Government securities. You can always get the resources from the central or the provincial banks. If the primary units were in a position to provide more credit, then they would draw more money from the apex bank through the central banks and, therefore, the means are there.

Dr. Friederich: I am only in favour of giving intermediate credits to a small extent out of long-term *deposits* and not out of loans borrowed from a central bank. At present in most provinces the local societies have to borrow the biggest percentage of their working capital from a central bank and I am not in favour of these local societies being encouraged to grant the so-called intermediate credits. I am under the impression that in this country you have a very big head for the co-operative movement but you have a weak body, because the body of the co-operative movement, the local primary co-operative societies is very weak in most provinces according to statistics. Of course, I cannot consider individual local conditions. On an average, however, you have a weak body and rather a heavy head consisting of central and provincial banks. They have means enough but the body is too weak for the head. Therefore, you must endeavour to strengthen the local primary societies.

Mr. Ramdas Pantulu: So you want them to deal with intermediate credit only from their own resources?

Dr. Friederich: Yes, Sir.

Mr. Ramdas Pantulu: There is one other point. There has been an idea that the co-operative credit societies in this country ought to liquidate the prior indebtedness of the members by the discharge of all debts, and you can quite see that the discharging of all debts cannot relieve things within two years. It is impossible. Therefore, our loans are necessarily for a much longer period than you recommend. What is your advice with regard to future operations? Should we continue to take up this question of discharging all debts or should we stop it?

Dr. Friederich: Have you an indebtedness which can be marked as to be short term indebtedness or have you an indebtedness which cannot be repaid within a short period? If you have such indebtedness, then it is a matter of the mortgage banks, but in case of a tenant who has no land at all and who cannot mortgage any land it is impossible to discharge such a tenant and I do not see that any reason exists for these primary societies to give a loan to a tenant who is very deeply indebted and who as they know cannot repay his debts. If out of personal knowledge you are convinced that a man is very qualified, is willing to pay and really has the capacity to repay, then the managing committee of a society may consider the question whether it must give a loan for, say, 5 years, but on no condition for a longer period, and only on condition that the primary society has means enough for this kind of business.

Mr. Ramdas Pantulu: Then it comes to the same thing. Intermediate loans can be given up to 5 years provided the society has its own resources. On page 4, dealing with primary societies, you say . . . "We are not in favour of the policy of co-operative departments of provincial Governments standardizing the rates of interest for deposits and credits in the credit societies throughout the whole province." I do not think it is done now.

Dr. Friederich: According to my knowledge it is done in the Punjab. You find it in the formed bye-laws. I can show you such a bye-law. It is really in force in the Punjab.

Chairman: May I ask Lalaji whether in the Punjab the rates of interest of the provincial co-operative societies are uniform?

Lala Harkishen Lal: No. They range from 6 to 7½ per cent.

Mr. Ramdas Pantulu: My information is that there is no such general policy.

Dr. Friederich: Generally the societies which we visited in the Punjab had the same rates of interest for deposits and loans.

Dr. Hyder: May I put it to you that because you found a certain state of affairs at Jullundur it cannot be said that the same is the case in other parts of the Punjab, *e.g.*, places like Muzzaffergarh, Gurgaon?

Chairman: If this appears in our Report, then the provincial Governments will be fully entitled to say, "who told you all this?"

Lala Harkishen Lal: Is it implied that uniformity means that every debtor and creditor in a particular society get the same rate of interest? This may be so but if it is understood to mean that the rates of interest are uniform from society to society, then I say it is not a fact.

Mr. Ramdas Pantulu: With regard to your observations on the primary societies I notice that you rightly advocate the principle of self-help. I might tell you that one difficulty which we experience in Madras, at any rate, is probably worth considering. The rates of interest in the urban and the rural areas very widely and it is not always possible for local societies to get money even though it is available cheaply in the local areas because they find it beneficial to borrow from the central bank. When I said this before the Townsend Committee on Co-operation in Madras, the Chairman said that the statement could not be accepted without doubt. I want to know whether you in Germany experience any difficulty in regard to this

Dr. Friederich: We have no such difficulties because every society has its own policy with regard to the rates of interest, depending on the costs of the various kinds of means.

Mr. Ramdas Pantulu: Is it your point that the societies get the same rate of interest from the central banks as they pay to the central banks?

Dr. Friederich: That may happen, but it is not usual. On the whole our system works well. In our country it is the duty of the auditors to see whether the society is working on sound or unsound lines and to suggest the rates of interest that the society has to fix.

Mr. Ramdas Pantulu: On the whole the system works well in your country?

Dr. Friederich: We have no difficulty at all. Sometimes the societies have too much money and they do not find proper avenues to invest on a sound basis all the available resources and, therefore, they find it necessary to lower their deposit rates.

Mr. Ramdas Pantulu: May I know whether the deposit rates in the urban and the rural areas in your country are the same?

Dr. Friederich: We have usually a difference of about 1 per cent. between the urban and the rural rates, the latter being higher. At present, with regard to the stringency the highest rate is about half to one per cent. over the official bank rate in urban areas, the same with the central banks.

Mr. Manu Subedar: If the official rate is 5 per cent. what would be the deposit rate?

Dr. Friederich: At present up to 6 per cent. in the urban area and with a central bank. We must consider that in case the official rate is 5 per cent. our apex bank lends money to the central banks at about 5½ to 6 per cent. So it works up their deposit rates to something like this. The apex bank lends money, as already told, to the central banks at 5½ to 6 per cent., the central banks lend to primary societies at about 7 to 8 per cent. The latter lend out to their members, at 9 to 10 per cent., which depends on the costs and the proportion of the money borrowed in form of deposits from members and non-members and loans from central banks.

Mr. Ramdas Pantulu: I am more anxious to know the deposit rates in the urban and the rural societies?

Dr. Friederich: We can say generally, apart from special conditions, that urban banks do not allow more than the official bank rate.

Mr. Ramdas Pantulu: And the district central banks?

Dr. Friederich: They also do the same.

Mr. Ramdas Pantulu: At what rates do the rural societies get their deposits?

Dr. Friederich: They generally allow 1 per cent. more than the central bank rate.

Mr. Manu Subedar: At what rate do the apex banks borrow?

Dr. Friederich: The apex bank for the agricultural credit movement does not borrow from private people; it appeals to the constituents and the money market.

Mr. Manu Subedar: You said that the apex bank lends to central banks at 5½ to 6 per cent. when the official bank rate is 5 per cent. May I know at what rate the apex bank gets its resources?

Dr. Friederich: Because of its connection with the money market, it borrows from other banks, but it does not deal with the public at all. Generally, the apex bank draws its funds from the constituents at about 3 per cent. on current accounts, at about 4½ per cent. on fixed deposits, furthermore, from the "Reichsbank" at the official bank rate.

Mr. Ramdas Pantulu: You have referred to a Managing Committee and a special "Supervising Board" for managing primary societies. Is it your view that both the committees are to be elected by the same general body?

Dr. Friederich: Yes, both of them are to be elected by the general body. The Supervising Board is superior to the Managing Committee because it has controlling powers.

Mr. Ramdas Pantulu: What is the special advantage of having two bodies? We in India have only one body.

Dr. Friederich: This is of special advantage to bigger primary societies. The system will work well where the Supervising Board effects a sort of control over the Managing Committee.

Mr. Ramdas Pantulu. The idea is to provide more internal supervision. Is it so?

Dr. Friederich: Yes.

Mr. Ramdas Pantulu: You say that the special task of the general meeting shall be to fix the maximum credit limit up to which credit may be granted to members in so far as good securities are procured and the character of the applicant is satisfactory. Who fixes the limit to, say, the extent to which members of the society can borrow?

Dr. Friederich: The general meeting fixes the maximum borrowing power, for instance, the Managing Committee are allowed to lend up to Rs. 500 to an individual member. With the special sanction of the Supervising Board credits may be fixed up to Rs. 1,500.

Mr. Ramdas Pantulu: Is it your view that there should not be more than one society in a village?

Dr. Friederich: Yes, it will be to the benefit of the members themselves if they had only one society in a village and all the villagers became members of it.

Mr. Ramdas Pantulu: Your idea is "one village, one society".

Dr. Friederich: That is so. If we have a well-trained manager to look after the work of the society, I do not see any reason why it should not work on sound lines. It must, however, be understood that a bigger society must be supervised much more thoroughly and audited more carefully than a smaller one.

Mr. Ramdas Pantulu: You have referred to "greater elasticity of credit" in item (4) under "Primary Local Societies". By sayng so, I think, you are really thinking of prompt credit to avoid delay.

Dr. Friederich: When I put down this in my paper, I had in view the Reports referred to in the "Appendix".

Mr. Ramdas Pantulu: Do you think in any province the societies can borrow the whole sum required?

Dr. Friederich: That depends on the special conditions. At present, all money received back during a season has to be sent to the central bank, and a new application has to be made to it at the beginning of a season. If a central bank would allow credit on current account up to a certain amount, this credit should not only be for a season. The credit fixed can be lowered if the financial position of a primary society concerned is worse, or increased if its financial position improves, and there is an urgent need for a bigger credit for productive purposes. In such a case, the credit may be increased from, say, Rs. 5,000 to Rs. 6,000 by the competent body(ies) of the central bank.

Mr. Ramdas Pantulu: Suppose a society applies for Rs. 10,000 based on applications from its own members to itself. The central bank sanctions the loan, but the society is at liberty to draw it whenever it likes in instalments and pay interest on its withdrawals. That is the practice in every province. But according to you the primary society will be compelled to withdraw the whole amount of the loan sanctioned at once. The Registrars of Co-operative Credit Societies consider that primary societies should not take more money than is necessary.

Dr. Friederich: I am not in favour of primary societies dealng with central banks on a specail loan account. My desire is that central banks shall deal with primary societies on current accounts.

Mr. Ramdas Pantulu: With regard to paragraph 4 (*c*) I may tell you that in some provinces this is strictly prohibited by the Registrar by a circular letter. Unlike your societies, our societies have no individual resources of their own, and it was found that they did not return the instalments as they fell due to the central bank, but reloaned the money repaid. It was, therefore, decided that reloaning should not be permitted by the societies and that the money should be sent to the central bank and borrowed again.

Dr. Friederich: At the present stage where there is no balancing and the primary societies do only distribution of credits, it might be right that the repaid money should be sent back to the central bank. But in case there is balancing, it would not be right. In case a society has a surplus for a short time, then, of course, it has to be sent to the central bank. If you want to get balancing centres, you must remove this restriction with regard to collections.

Mr. Ramdas Pantulu: Our difficulty is that primary societies have no resources of their own and their only source of credit is the central bank, and this being the case, it is dangerous to allow societies to reloan their collections.

On page 6 you propose that no credit should be given to individuals. The impression I have gathered from the Provincial Enquiry Committees' Reports is that individuals add to the efficiency of the central bank management. Without them the central banks will merely be associations of borrowers, all primary societies being borrowers. We have found in practice that at the general body meetings of central banks consisting entirely of borrowers unsound propositions are put forward in the interests of borrowers, forgetful of their responsibility as lenders and also their responsibility to depositors. Therefore, in every province the Registrar has encouraged the admission of some individuals as shareholders so that they may help in the managment of central banks and also counteract the tendency of borrowers to run the banks on unsound lines. This is the position in India.

Dr. Friederich: These individuals may look more after their own interests than after those of primary societies. Therefore, in my country most of the central banks have excluded individual members. If individual members are taken, the danger may arise that central banks will lend out money to them, and I want to restrict it. Central banks can take deposits from non-members and even open current accounts for them, but they should not be allowed to grant any loan to individual members. If this is not restricted in time, it will be difficult to do so later on.

Mr. Ramdas Pantulu: I am thinking more of the directorates. If you exclude individuals as members, then the directorates will consist of representatives of primary societies. It has been found in practce, and, I think, almost every authority in India has said that it is very dangerous to leave the management of these banks in the hands entirely of representatives of borrowing societies. There ought to be on the directorates some men of light and leading of the area—they may be one-third of the directorates—as they will serve as a ballast to see that no unsound financing is indulged in. They are are a great asset, and a high dividend is not their primary consideration. They come into the movement really to help it.

Dr. Friederich: I agree to people being taken who want to assist the co-operative movement, but I want to restrict central banks taking members who want to borrow. If there is, for instance, a professor of economics interested in co-operation who wants to become an honorary worker, I should have no objection.

Mr. Ramdas Pantulu: With regard to II (2) on page 6. Limited liability with a reserve liability.' You are thinking of the shares held by the societies in the central bank?

Dr. Friederich: Yes.

Mr. Ramdas Pantulu: You want each share to be of Rs. 300 or the entire holding to be Rs. 300?

Dr. Friederich: Each share should be of at least Rs. 300.

Mr. Ramdas Pantulu: Our shares are of only Rs. 10 each.

Dr. Friederich: Rs. 300 is not too high. You must endeavour to get a good basis for a central bank.

Mr. Devadhar: You do not mean to say that the contribution of the small societies towards the capital of central banks should be Rs. 300 all at once?

Dr. Friederich: No. It may be paid up in instalments. In my country at least one-tenth of the share has usually to be paid up at once.

Mr. Ramdas Pantulu: It is also the case here.

Mr. Devadhar: There is an implied understanding that when primary societies borrow from central banks, and central banks from provincial banks, their loans must bear a certain proportion to their share capital.

Dr. Friederich: In my country for credit up to a certain amount one share has to be taken, for a larger credit up to a certain limit another share has to be taken, and so on. You must, of course, have an utmost limit, such as a society or an individual member cannot take up more than five shares.

Mr. Devadhar: A central bank in a district town has shares of a value of Rs. 50 each. A primary society should not take up one share and ask for a loan of Rs. 500.

Mr. Ramdas Pantulu: One-tenth of the share is paid immediately. With regard to the reserve liability you want the societies to make themselves responsible for 5 to 10 times the paid-up share capital. Is it in the interests of depositors?

Dr. Friederich: The Co-operative Societies Act prescribes that in the case of limited liability, the liability is restricted to the value of the shares. In my opinion it is not in the full interests of depositors. A co-operative society with limited liability is of the same character as a joint stock company. You have the co-operative character only in voting, namely, even societies or individual members who hold several shares have only one vote.

Mr. Ramdas Pantulu: Suppose a society has taken in a central bank shares worth Rs. 1,000. It may have paid Rs. 200 only and has yet to pay in yearly instalments the sum of Rs. 800. You want it to have a reserve liability of Rs. 5,000 to Rs. 10,000?

Dr. Friederich: Not in this case. It is for this reason I said 'five to ten'. I did not want to go into details. If the general meeting fixes the value of a share rather high, then it is not necessary to have a very high reserve liability because you already get a good basis for taking up loans and deposits. If the share is fixed relatively low, it is necessary to have a higher reserve liability so that you have still a basis on which credits may be granted by a bank or deposits entrusted.

Mr. Ramdas Pantulu: I am sorry I cannot follow you. If the society's borrowing power is in proportion to its share capital, it will take enough shares to permit it to borrow the amount it requires. Suppose it wants to borrow Rs. 5,000 and takes a share capital which is 20 times this amount?

Dr. Friederich: What I mean is that in addition to the liability arising out of shares taken up by a member, it should have a reserve liability of 5 to 10 times the value of the shares it holds, in this special case with a central bank.

Mr. Ramdas Pantulu: It is intended for the benefit of depositors?

Dr. Friederich: Not only; besides, for that of all creditors. We do not, like you, fix that a society with limited liability should have a certain capital composed of, say, 2,000 shares. But we lay down, for instance, that a share of a society shall be say, 50 Reichsmark. One-tenth of this share has to be paid up at once, with regard to the remaining part of the share the general meeting may decide at a later date. Our co-operatve law prescribes that this reserve liability should be at least as high as the share. In case the value of a share is fixed at Rs. 50, the reserve liability has to be at least Rs. 50, to be realized partly or fully in case of bankruptcy. The general meeting can, however, fix this reserve liability higher than the share: there is no limit at all, but it is a practice to fix it at 5 to 10 times the share. The opinions of well known co-operators on this point are different. Schultze-Delitzsch, the father of the urban co-operative credit societies, was not in favour of fixing the reserve liability very high, he advocated only 3 to 5 times the value of a share. He could recommend it because he was very much in favour of fixing the share relatively high. Raiffeisen and Haas, as representatives of the agricultural co-operative movement, were in favour of a higher reserve liability for the reason that the share of a local agricultural society can usually not be fixed relatively high. Agricultural co-operative societies have mostly shares of a value of Rs. 35 each and a reserve liability of Rs. 175 to Rs. 350. In case you want to promote co-operative soceties with limited liability, I recommend very strongly such a reserve liability in the interests of depositors as well as in the interests of the societies themselves. Perhaps I may be allowed to make another

proposal. I find that according to your co-operative law credit societies of which the majority of the members are agriculturists shall be unlimited liability societies. This is, in my opinion, a hindrance if you want to get bigger people into these societies. They will say, 'these are debtors, small people, they cannot pay, I have funds and shall have to pay the whole of the debts in case of a failure.'

Mr. Ramdas Pantulu: It comes into operation at the time of liquidation.

Dr. Friederich: We have in Germany big agriculturists as members of co-operative societies: but they are limited liability societies. In case they were unlimited liability societies, they would not have become members. I am in favour of unlimited liability; it is very useful. I only want that your law should be amended so as to permit that such societies can be created and not that they shall be created. If, with regard to big farmers, it may be required, the Registrar should be allowed to form a co-operative credit society with limited liability or to change an agricultural credit society with limited liability or to change an agricultural credit society with unlimited liability into one with limited liability.

Chairman: There is provision.

Dr. Friederich: I am talking with reference to considerations in Reports of the Provincial Committees. I discussed the matter with the Registrar of the Punjab. What you say is in direct conflict with the knowledge I have got from the Reports.

Mr. Ramdas Pantulu: Our loan and sale societies are all limited liability societies.

Dr. Friederich: I was referring to the Co-operative Societies Act of 1912, paragraph 4, point (2).

Mr. Ramdas Pantulu: You say "all money transactions with primary societies should be done and credits should be granted on current account, in order to speed up the activity between the primary societies and the central banks. Dealing in cheques and clearing instead of ready money should be promoted.'. We find that even central banks are not able to handle current accounts. Some of us who are in favour of your proposal are agreed that after all the safety of the money has to be given greater consideration than making it more elastic. In most villages *panchayats* are not able to deal in cheques in current accounts.

Dr. Friederich: I am only thinking of advanced societies.

Mr. Ramdas Pantulu: I do not understand your first sentence in paragraph III (3) under provincial co-operative banks where you say, "we are not in favour of provincial co-operative banks being established under the Co-operative Societeies Act with regard to the liability of primary societies and central banks to the provincial banks." Wiill you kindly explain that?

Dr. Friederich: The primary society with unlimited liability is a member of the central bank and the latter a member of the provincial bank. In case of a failure, the members of a local unlimited society have to pay according to the unlimited liability.

Mr. Ramdas Pantulu: Central banks are all limited liability companies.

Dr. Friederich: Suppose a primary society has deposited Rs. 50,000 with its central bank, the latter fails and out of these Rs. 50,000, Rs. 40,000 are lost, it means that Rs. 40,000 are lost for the primary society with unlimited liability; this loss is a part of the deposits, it may be of members as well as of non-members. To cover this loss, the members have to pay with reference to unlimited liability, in so far, of course, as the loss cannot be balanced by writing off reserves.

Mr. Ramdas Pantulu: What will be the liability of the members? The unlimited liability is a guarantee for the depositors.

Dr. Friederich: You must differentiate between customer and member, a loss which a local society incurs on one hand as customer and on the other hand as a member of the central bank. The local society loses perhaps as member its shares of about Rs. 1,000, that is a limited liability.

Mr. Ramdas Pantulu: How will you improve the position by registering the provincial bank under the Companies Act?

Dr. Friederich: The central bank is a member of the provincial bank and has a share in the liabilities of the provincial bank. In case of a big failure—we must always suppose the worst happening—it is better to do so than to be too optimistic. When such a big failure would occur, the whole co-operative movement of a province would be affected. To prevent this combination of liabilities from primary societies to central banks and the provincial bank, I am very much in favour of having another institution. I am in favour even of a mixture between a public and private institution in order to decrease the risks so that the central banks cannot be much affected by a failure.

Mr. Ramdas Pantulu: Let me make my point clear. A provincial bank rests on central banks, central banks rest on societies, societies rest on members; therefore, a provincial bank ultimately consists of loans made to members. The safety of the provincial bank depends upon the investments made by the societies to its members. I thought you referred only to loans made to the members. If you want the provincial bank to be a financing agency for central banks, central banks for societies and societies for members, the provincial bank is bound to fail; for if societies fail, central banks fail and if central banks fail, the provincial bank fails. The Punjab Provincial Bank was as a matter of fact registered under the Indian Companies Act about 2 years ago. We, however, discovered that there was a provision for the provincial bank to be registered under the Co-operative Societies Act. The Punjab Bank said that they were not registered under the Co-operative Societies Act but under the Joint Stock Companies Act. Therefore, I do not see how registration under one Act or another is going to save the provincial bank. The nature of its assets will ultimately depend on the security of the loans advanced to members. I only want to know how your proposal to register the provincial bank under the Indian Companies Act is going to save us unless you say that the provincial bank should not only do lending to the central banks, but take up some other big business in which it will recoup part of its loss, *e.g.*, half a commercial bank and half a co-operative bank?

Dr. Friederich: No, half a public bank and half a co-operative bank. My idea was not that it should be registered under the Companies Act.

but to create a special institution. I should even be in favour of passing a special Act with regard to provincial banks. Perhaps I may be allowed to tell you something of our experience with regard to apex banks. The first apex bank in Germany was founded by Schultze-Delitzsch in 1864 and merged with the Dresdner Bank in 1904. The second apex bank, the Deutsche Raiffeisen Bank, started in 1877. It failed in 1929. These were special apex banks for the co-operative movement. The third apex bank was formed in 1902 by Haas, leader of the "Reichsverbands-Organisation." It did not flourish. In 1907 it was transformed from a co-operative society to a joint stock company, but nevertheless in 1912 and 1913, at the time of a general depression in the German economy, the apex bank failed. These are our experiences with regard to special apex banks for the co-operative movement. Since 1904 the "Dresdner Bank", one of the big banks, is the apex bank for the so-called Schultze-Delitzsch, urban credit societies in Germany. It created a special department for credits to co-operative societies. No society has any share with the Dresdner Bank. No society is compelled to take up any share. There is a special co-operative committee which, together with the managers of the special co-operative department, have to fix the credits to be granted to the members of the Schultze Delitzsch Union, called "Deutscher Genossenschaftsverfand", German co-operative Union). Dresdner Bank has been an apex bank up to now. The other apex bank is called: Prussia's Central Co-operative Bank. This bank was formed in 1895 to be an apex bank only for the co-operative societies of the province of Prussia. The majority of the capital has been supplied by the State of Prussia. For this reason the bank became a public institution which had at the start preferably to deal with co-operative societies within the province of Prussia. At present it is being the apex bank for the agricultural co-operative movement all over Germany. On the other hand, the apex bank is allowed to deal with public institutions in Germany and to conduct all transactions in the money market required for balancing the supply and demand of money.

Chairman: Will you kindly say what you precisely mean by public banks. Are they Government banks?

Dr. Friedrich: We cannot say they are Government banks. First of all, we have public savings institutions which are mostly municipal banks and banks of provincial associations of municipalities. These are under the guarantee of the provinces. The other kind of public banks are the so-called provincial public banks. These are for provinces in Prussia or for States in Southern Germany, where we have Federal States. Some of these Federal States have special banks which are State Banks.

Chairman: I should like the other experts to listen to this discussion. I am assuming that this is their view also.

Dr. Trip: This is only a statement of the situation in Germany.

Chairman: There is a recommendation here and I wanted to find out what was precisely meant by registered institutions.

Dr. Friederich: I did not give any recommendation. I only wanted to state the situation in Germany and to make it clear that such a provincial apex bank can be created under a special Act.

Chairman: Where are you going to get the money from? At the present moment the function of these apex banks is to finance district banks and through district banks the primary societies. If the primary societies are not in a position to promptly pay back the loans,naturally the apex bank must be in a tight position. If it is an institution which has other resources,*e.g.* State funds, I can see your point, the State funds would help it to tide over the difficulty. Otherwise, how is it going to tide over the situation? Therefore, I wanted to know what you precisely meant by a registered institution. In fact you will remember that I wrote to you a letter saying that there was one passage in your note which I did not understand. This is the passage.

Dr. Trip: May I refer you to Mr. MacDougall's paper in which the future financing of the co-operative movement is dealt with?

Chirman: I shall come to that in due course. If I may make one observation now, it shows to my mind a clear misapprehension of Government financial arrangements, and I shall in that connection ask Mr. MacDougall whether he has read the report of the Bradbury Committee in England. Dr. Friederich's point is that the provincial banks should have a different constitution and we are trying to find out what that constitution is going to be. When I read this memorandum, I thought he referred to joint stock companies. He says these should be commercial banks and he wants them to be registered institutions. I want to know what sort of institutions he contemplates.

Dr. Friederich: About half the share capital should be taken up by central banks, the other part of the share capital of provincial banks should be supplied by the provinces.

Chairman: That is the precise position. Therefore, in future, according to this recommendation, the provincial co-operative bank willl have a greater portion of the share capital supplied by the provincial Government and a small portion supplied by the central co-operative bank. At the present moment what happens is this: the provincial co-operative bank arranges its own affairs. At times when it gets into trouble, the provincial Government helps it with a loan. That was what happened in the Central Provinces. With the help of the loan, the Provincial Bank managed to tide over the situation and to the best of my recollection, they have now paid back the whole of the loan.

Dr. Friederich: You must distinguish between working capital and share capital. I am thinking here only of share capital and not of working capital.

Chairman: Then the benefit, to my mind, becomes more doubtful.

Dr. Friederich: No, Sir.

Chairman: I am still trying to find out how, in view of our experience in India, it will work. Mr. Ramdas Pantulu will pursue this point after lunch.

Dr. Friederich: I do not want any special guarantee.

Chairman: We come back to item 3 on page 7. It relates to the provincial co-operative banks and perhaps it would simplify the position if we were told, what specific proposal it is intended to place before us.

Dr. Friederich: I made proposals with regard to the future development of the co-operative movement in India, with regard to the primary societies and with regard to the future development of central banks. I wanted to mark the lines on which the work should be carried on. My proposals with regard to provincial banks are on the same lines. I proposed that central banks should be formed only for districts and that it should be considered whether and by what means the present organisation could be adjusted as far as possible to the ideal which I gave. If the organisation of central banks is adjusted to the ideal which I gave out of experience of other countries, then you get one central bank for each district. So in Assam you would have 12, Bengal 28, Bihar and Orissa 21, Burma 41, and so on. You get only a small number of district banks. Of course, district banks will get stronger than they are at present because they comprise a bigger area, but nevertheless, they will have to take up the whole share capital of the apex bank for the co-operative movement of a whole province. We think that it would be rather too heavy a burden for these central banks, rather too large a liability if they have to take up the whole share capital. We have to consider and to remember that the provincial bank has to deal with the money market and to get especially rediscounting facilities if it has not a big share that a provincial bank may not be able to deal with the money market and capital. A big share capital is earnestly required for a provincial bank in order to get these facilities. On the other hand no heavy burden must be created for central banks. Therefore, I proposed to transform the provincial bank on the lines which I marked. I do not intend to create a I want to reserve the special co-operative character, and, therefore, it is our proposal that more than 50 per cent. of the share capital of the provincial bank should be in the hands of the central banks.

Chairman: At the present moment the State does not provide, so far as I know, any portion of the share capital of these apex banks. What happens is this, a large portion of the capital is provided by the central banks and at the same time a substantial portion is provided by other members and there is no bar against taking the capital from other members.

Dr. Friederich: I have no objection against a bar. I think such an apex bank should not deal with individuals.

Chairman: You bar that channel, therefore, your proposition is precisely what I stated, that the State should provide perhaps half the share capital.

Dr. Friederich: Up to 49 per cent.

Chirman: That is immaterial. The State should provide approximately one half of the share capital. That is the proposition you have placed before us. Is that acceptable to all of you?

Dr. Trip: We have looked at the proposal of Dr. Friederich and we discussed it from a somewhat different point of view. We considered that he wanted to build up an apex bank, not on a co-operative basis but as a limited company or institution. We did not have the impression that such a large part of the share capital would be taken by the Government.

Chairman: At present that provincial bank works on the limited liability basis, therefore, there is actually no difference between its present constitution and your conception of it. The only point is that at the present moment the shares are provided firstly by central banks who, as I

understand it—of course, the position differs from province to province—find the bulk of the capital. Another part of the capital, perhaps the minority, is provided by what is known as members. But still everywhere it is a limited liability.

Dr. Trip: I see.

Chairman: In the Punjab, as Mr. Ramdas Pantulu pointed out, it is registered under the Co-operative Act. It has now been changed so that shows that apparently that system did not work.

Dr. Friederich: Now all individuals should be excluded.

Chairman: Your proposition is that individual shareholders should cease to exist and that void should be filled up by Government shares? I quite understand. Mr. Ramdas, do you still want to discuss it? We have understood the position and there is a difference of opinion between the experts themselves.

Mr. Ramdas Pantulu: What we find is that the capital furnished by individuals forms a very small part, and the central banks have never complained that they were unable to furnish the necessary capital. I wish to know from Dr. Friederich what advantages are to be gained by substituting Government capital. Central banks are quite willing to give all the share capital. In Madras, out of several lakhs, 18,000 is individual capital.

Chairman: Apparently, that was an avenue by which you yourself came on the Board of Directors of the Bank.

Mr. Ramdas Pantulu: By purchasing one share. Therefore, it is not a question of individuals. So far as the share capital is concerned it really comes from central banks.

Chairman: We will discuss your point when we are discussing amongst ourselves.

Dr. Friederich: My first point is that the share capital and the reserves of the provincial banks are at present relatively small. They amount on an average to less than 20 per cent. For the co-operative movement of the future,—you want to develop agricultural societies, you want to develop urban societies—you must have a very strong apex bank. Then the share capital and the reserves which the Provincial banks have at present are too small and it is necessary to supply more share capital and this can, in my opinion, not be done by the central banks, which are or should be the sole constituents of a Provincial Bank. It is the question on the one hand not to load heavier burdens on the Central Banks, not to increase the liability, on the other hand to strengthen the share capital of Provincial Banks. Therefore, we made the recommendation of the financial participation of the Province.

Chairman: I understand the position, but at the present moment additional capital is not required from Government. It may be required, and the real point is that when that stage is reached, how should Government capital be provided? Of course, we have precedents in England and we can deal with it more effectively on Mr. McDougall's paper without trying to change the constitution of the provincial bank, the need for which, to my mind, has not been established.

Mr. Ramdas Pantulu: The difficulty is not that the capital would not be forthcoming but the provincial bank would certainly be more benefitted by working on borrowed funds than on a large share capital. What we

find in most provinces is that we have the necessary share capital and central banks apply for more shares and you allot them. We can get money at 4 or 5 per cent. from deposits, therefore, no provincial bank will really allot shares even with applications. They say, "when your borrowing power has been reached and when you can no longer borrow under the rules, we will give you some more shares in order to make up the capital." We do not want to burden ourselves with that kind of capital.

Mr. Ramdas Pantulu: On page 7 you say "We are against co-operative Apex Banks advancing loans on long term mortgage credit. We cannot approve the issue of mortgage debentures as is done in Bombay, Madras and the Punjab." This is a statement of fact which is not correct, because neither of these banks has issued mortgage debentures.

Dr. Friederich: In the statistical figures for 1930, supplied by the Secretary, we find under provincial banks, "debentures," share capital and reserves, deposits and loans form the whole working capital.

Mr. Ramdas Pantulu: Debentures are merely uncovered debentures on the general assets of the bank.

Dr. Trip: They have a mortgage department in Bombay. We saw that.

Mr. Ramdas Pantulu: In Bombay the funds are now being used to finance three of the land mortgage banks. Their own debentures are not mortgage debentures.

Dr. Friederich: I remember when we visited a mortgage bank in the Punjab we were told that money was supplied by the provincial bank out of debenture issues. The Provincial Bank in the Punjab has in fact issued debentures. Part of this money has been given to mortgage banks for mortgages.

Lala Harkishen Lal: It is mortgage of assets.

Chairman: They have done so in the Punjab under the authority of the provincial Government and under its guarantee the apex bank has issued these mortgage debentures and has handed over to the mortgage banks for their financial purposes. It means this, that instead of starting a separate mortgage bank in the Punjab the financing work is being done through the apex bank.

Mr. Ramdas Pantulu: Even then the provincial bank, out of its own finance, provides for redemption. They are not really mortgages, they are merely assets of the banks.

Dr. Trip: We have in our country what they call a great number of mortgage banks. They all issue debentures and they all give mortgages. But these debentures have no preference against mortgages. There is no connection between mortgages and debentures. So I do not understand what Mr. Pantulu means by saying that they are not mortgage debentures.

Chairman: Mr. Ramdas Pantulu's point is this. The provincial co-operative bank itself does not engage in mortgage business. It raises debentures in some cases, they are not mortgage debentures at all. In the Punjab the apex bank raises debentures and hands over the money so obtained to the land mortgage bank. Thereby, apparently, the provincial Government has so far managed to do without a separate apex land mortgage bank. It is purely an administrative arrangement.

Dr. Friederich: This money is advanced for long periods to mortgage banks. It is for the purpose of giving mortgages.

Chairman: But the money is raised for a long period. It is raised on long term debentures. This bank in the Punjab, under the authority of the local Government, issues long term debentures; having done so, it hands over the money to the Punjab Land Mortgage Bank. The point is that to that extent it operates as the apex to the land mortgage banks, instead of duplicating the arrangement for a separate land mortgage bank distinct from the apex bank.

Dr. Friederich: Then why have you under the liabilities of provincial banks the item 'debentures' if it is only done on behalf of Government and on the full responsibility of Government. I think it should not, in this case, be put under liabilities of provincial banks. These are liabilities with regard to the issue of debentures. If I am told that provincial banks are liable for repayment of these debentures then I insist on my point. If it is not so, then it would be necessary that the balance sheets should be changed in this respect because the debenture issue is only done on behalf of Government.

Mr. Ramdas Pantulu: The money borrowed is certainly liability, and the money lent to mortgage banks is asset.

Dr. Friederich: I am not in favour of this business.

Mr. Ramdas Pantulu: May I know what is.

Dr. Friederich: It is a connection between short-term and long-term business. Such a connection I cannot call sound.

Chairman: You still consider it is a mixing of long-term and short-term credit business?

Mr. Ramdas Pantulu: With regard to your proposal under the heading 'Moneylenders' on page 3, what do you mean by usurious moneylenders?

Dr. Friederich: It is a definition which is so difficult to define. For this reason your Usurious Loans Act of 1918 had no success because judges did not know what was meant by "usurious" so this Act could not be applied to.

Mr. Ramdas Pantulu: You mean legal moneylenders who lend money at extortionate rates of interest?

Dr. Friederich: Moneylending by banks and bankers at certain rates of interest and public opinion must define the meaning of usurious rates of interest.

Mr. Ramdas Pantulu: People who charge very extortionate rates of interest which are not in relation to rates of interest charged in ordinary business dealing? . . . . .

Chairman (to Mr. Ramdas Pantulu): I thought you were going to ask whether he had any concrete proposals to make in that direction.

Dr. Friederich: It is for the judges to decide whether a particular rate of interest which has been charged is usurious or not.

Mr. Ramdas Pantulu: That is when the parties go to court. I suppose the conditions in your country are precisely as they are here where the courts are given full discretionary power to decide facts on their merits looking into local conditions of the rate of interest and the position of the Money Market. That is why I asked you what you meant by "usurious".

Dr. Friederich: I would rather leave it to the judges to decide. It is too difficult to say what is a usurious rate.

Chairman: Mr. Ramdas Pantulu's point is this. Supposing you were a judge charged with the administration of that law in India how would you regulate your course of action in deciding cases coming before you for decision?

Dr. Friederich: I would consider any rate above, say, 20 per cent., as usurious in this country.

Mr. Ramdas Pantulu: You say that agriculturists cannot be protected from usury by strengthening the Usurious Loans Act of 1918. May I know how you will proceed to protect their interests?

Dr. Friederich: The history of such laws has always shown that they have been in existence for years but have proved to be of little avail.

Chairman: The real point is that even if you amend the law and put down a specific rate of interest, the people who at present suffer from the rapacity of the usurious money lender will not be in a position to or may not dare to have recourse to a court of law. That is the whole position.

Dr. Friederich: I agree.

Mr. Ramdas Pantulu: Besides the introduction of the co-operative movement in those areas, have you any other suggestions to make with regard to the protection of the agriculturist from the usurious money-lender?

Dr. Friederich: Mr. McDougall may have some suggestions to offer. I have recommended to allow higher rates of interest on deposits in order to get moneylenders into the co-operative movement. My own opinion is that it is a hopeless position to see what low rates of interest are allowed on deposits and what high rates are charged on loans. At present (speaking for myself) most people in this country who can invest money and do not do moneylending as a profession do resort to moneylenders in order to obtain high rates of interest, for if they put their money with commercial banks, they will not get a good rate of interest.

Ch. Mukhtar Singh: I suppose you presume that such usurious money-lending is done by persons who accept deposits.

Dr. Friederich: I think most of the moneylending is done by the moneylenders' own money and a part by deposits got from friends and so on.

Dr. Trip: It seems to me that there is a misunderstanding. Dr. Friederich's point seems to be that there are several people in this country who save money and who are not moneylenders but who will try to lend their money at higher rates of interest than what they are able to get from banks on fixed deposits. His point is that if these men could be persuaded to become members of co-operative societies and allowed higher rates for their investments, in course of time their number would dwindle down.

Mr. Devadhar: Do you think that this temptation of getting more interest will prompt people who have more funds?

Dr. Trip: Dr. Friederich wants to attract that money, which these people lend at usurious rates, into the primary societies and he sees the possibility of that by offering them higher credit rates on deposits.

Mr. Ramdas Pantulu: Some witnesses before the Committee have suggested that moneylenders in this country may be licensed and thus be required to keep properly audited accounts and so on with a view to protecting borrowers from the usurious terms offered to them. May I know whether you approve to their being licensed like that?

Dr. Friederich: That is hardly possible to catch all moneylenders. I think it is very difficult to bring in all sorts of people who do moneylending under the scheme of registration. I am, therefore, not in favour of registration of moneylenders.

Mr. Ramdas Pantulu: Have you perused the English Moneylenders' Act?

Dr. Friederich: I may say that about 100 years ago in Germany conditions were nearly the same as they are here now, *i.e.*, there were any number of moneylenders lending money at usurious rates and with the advent of the co-operative movement in the country conditions have gradually changed and people who were formerly moneylenders have now become members of co-operative societies and so we have the right type of co-operation in our country now.

Mr. Ramdas Pantulu: You suggest "It will be a task of the banking institutions for long term credits to consider the possibility of taking over old debts". Have you any suggestions to make with regard to relieving the conditions of people who are in debt from usurious moneylending? Do you contemplate that these debts will be taken over by the land mortgage banks?

Dr. Friederich: That is my suggestion.

Mr. Ramdas Pantulu: You say, "It shall be laid down in the Co-operative Societies' Act and the By-laws that the members of the Managing Committee and Supervising Board are jointly and severally responsible for credits granted without the requisite care". Will you please explain yourself a little more fully on this point?

Dr. Friederich: My point is that if the members of the management have not been careful enough, then they must be held responsible for any loss that might arise. The management must feel that they have lent money on their own responsibility. That is the idea.

Mr. Ramdas Pantulu: Will you please explain the term "with requisite care"?

Dr. Friederich: As I have already explained, the management of these societies must feel that they are taking entire responsibility in all their actions regarding the granting of loans, etc.

Mr. Devadhar: Have you come across many cases where such need for a provision has been felt of loans, etc.

Dr. Friederich: Yes. Every primary society's work should be on those lines.

Mr. Devadhar: Is that a general advice that you give or have you felt it to be an urgent need?

Dr. Friederich: It is an urgent need.

Mr. Devadhar: Is this impression of yours gathered from the Reports of the Registrars of Co-operative Societies?

Dr. Friederich: We have to look at it from the psychological aspect.

Mr. Ramdas Pantulu: Do you realise that if such a rule existed you will be scaring away many people from taking up the responsibility of the management?

Dr. Friederich: I do not think why anybody should be scared away like that, for after all, the management should do its duty and I say it should be done conscientiously. That is all.

Mr. Ramdas Pantulu: With regard to audit I am glad that you advocate an efficient audit and that the scheme of audit should be uniform for all Provinces and so on. Have you considered the question of cost of your scheme?

Dr. Friederich: Yes. I have said that the expenses of the auditing district unions have to be covered by contributions from the affiliated central and primary societies.

Mr. Ramdas Pantulu: With regard to the provincial and central banks they make their own arrangements for auditing by qualified auditors, but in regard to these rural societies the cost is found to be prohibitive to have them audited by qualified auditors. Therefore, the auditing of provincial primary societies is being done at present by Government.

Dr. Friederich: You have supervising unions. Central banks keep special supervising staff. They have to spend money for it. Government have to spend money for audit. All these—the supervising unions, central banks, and Government,—have to spend for supervising and audit. We find that in the opinion of the people who wrote the Provincial reports the audit of the co-operative societies is not effective enough. I refer to the Bengal report. Most of my proposals are with reference to defects which have been pointed out in provincial reports.

Mr. Devadhar: It is no use referring to one particular province. As the suggestion we have to make should be an all-India one in its application, the same point must be studied in the light of other reports as well.

Mr. Ramdas Pantulu: Your point is that there are very many agencies on which money is spent. Nevertheless, efficient audit is not secured. Therefore, dispense with supervising unions, the Inspection staff of the central banks and Government auditors; have one audit organisation, and then pool all the resources and you get money.

Dr. Friederich: I think all their contributions—central banks' Government's and societies'—should be put together, and one organisation formed for auditing, supervising, etc. Central banks have the special job of providing credits. Auditing unions have the special job of auditing, supervising, advising and training auditors. Thus everybody has a special job, but they will all have to work together for the welfare of the co-operative societies.

Mr. Ramdas Pantulu: You want these audit unions to get into touch with central banks and give all information to them 'in order to avoid a second supervision of them.' We would like a paper on European banks.

Ch. Mukhtar Singh: It is impossible in the case of people who have no land to get any benefit from mortgage banks because they cannot offer any security, and co-operative societies will not be able to help them because you do not advise that they should help to discharge old debts.

Dr. Friederich: Co-operative banks can finance current needs. With regard to old debts I do not see any substantial help by primary, local credit societies.

Ch. Mukhtar Singh: The man is heavily in debt to money-lender, and the co-operative bank finances his current needs. There will be very little assets because the old debts are there, and whatever little he can make may be taken away by the co-operative bank and the money-lender. His position is not improved by taking money for current needs from the co-operative society.

Dr. Friederich: I was speaking of personal responsibility of the managing committee and the supervising board. Here you have such a case. The managing committee or the supervising board can on their own responsibility make a loan for discharging debts in case it can be repaid within a shorter period.

Ch. Mukhtar Singh: There will only be very few cases of that kind.

Dr. Friederich: People who are hopelessly in debt, really cannot be helped. I cannot recommend that people who are hopelessly in debt should be helped. But they can be helped by a special agricultural measure of reform. In my country peasants were in a very bad position 100 years ago. We had all kinds of things as you have in this country, there were even peasants who were not free.

Dr. Hyder: Servitude, we have not got in India.

Dr. Friederich: In consequence of the so-called peasant's liberation peasants were allowed to redeem debts within 30 and more years. The last debts were repaid in 1892. I do not recommend to you to do something like that. I only referred to the reform that was effected in my country. The State formed special banks, the debts of the peasants were fixed, the people had to repay their debts not to the landlords but to the special State banks in small instalments. Free peasantry was created by these measures. I have no objection at all to such a reform in your country. But it is not directly connected with the co-operative problems which we have to deal with. Therefore, I cannot give you definite recommendations in this matter of agricultural policy which has also a political side. I only referred to the agricultural reform in my country. It is a matter for you to decide what you want to do in your country.

Dr. Hyder: This liberation of peasants has two items; purchase of lands for the peasants and purchase of their freedom. We have not got the latter problem.

Ch. Mukhtar Singh: In certain cases you have got it.

Dr. Hyder: The ryot is free in British India.

Ch. Mukhtar Singh: For that a banking solution was found in Germany and after that the state of affairs was better.

Dr. Friederich: That was done by the State and not by co-operative banks.

Ch. Mukhtar Singh: Do you feel that in this country it is possible for the cultivator to support himself with the small amount of land that he has?

Chairman: That point will be dealt with in connection with Mr. McDougall's paper.

Ch. Mukhtar Singh: In Germany, I think, that financing is not done by central banks but mostly by every primary society.

Dr. Friederich: In pre-war time it was so, but since our inflation in 1923 primary societies have to be partly supported by credits from central banks.

Ch. Mukhtar Singh: On page 4 you say that primary societies should find their own money. In Bombay there are societies which do not have any shares and they are not forced to make a deposit before they can get any advance. The central bank provides the entire money to begin with.

Mr. Ramdas Pantulu: Societies in India have a working capital of Rs. 373 lakhs and 115 lakhs members.

Ch. Mukhtar Singh: When a primary society starts for the first time, it starts with a clean slate, no money. No taking of share is compulsory, no deposit is compulsory.

Mr. Manu Subedar: As certain of its members are in debt, it starts with *minus* assets.

Mr. Devadhar: As a matter of fact, before a society is started an application has to be made which is scrutinised by the Assistant Registrar. He sends an organiser who submits a report that so many people are prepared to put their deposits in the society. No society is started unless some money comes from some members of the society. Of course, a large number of people join the society to get money, but it does not mean that the society starts with nothing or that central banks give money to societies with zero capital.

Mr. Ramdas Pantulu: A property statement is filed and borrowing power is fixed with reference to the assets of members.

Ch. Mukhtar Singh: I do not say that central banks should not advance money to primary societies. My point is this. In Germany a primary society begins with its own money, in India it does not. Am I correct?

Dr. Friederich: No. It cannot get its money all at once. In every country a co-operative society starts with a debt. Everybody has to take up one share in case of a society with unlimited liability. Then the society can send an application to the central bank and gets its first credit on current account. But it must be the endeavour of the society to replace this credit taken from the central bank by deposits from members and non-members within its district of operations. It is not easy, but very difficult, to get deposits. We do, therefore, all kinds of things for this purpose in Germany. We distribute home saving boxes. We persuade school masters to sell saving tickets. On every Sunday many societies send a member round the village—not only to members, but also to non-members—in order to collect deposits. The deposits are not compulsory. For instance the manager goes to peasants who sold cattle and tells them that they will get a reasonable rate of interest if they will deposit any free money. It is a propaganda which is necessary. You can get deposits only by hard work, by good management and audit. These will inspire confidence in the depositor.

Ch. Mukhtar Singh: Though in the begining the capital is not enough a primary society recognises that it ought to be self-supporting and makes every effort to get money to become self-supporting.

Dr. Friederich: Quite so.

Ch. Mukhtar Singh: A primary society will give money to a borrower only to the extent he can repay.

Ch. Mukhtar Singh: Every society is both a savings society and a society of credit.

Dr. Friederich: In every country, even in my country, you find a lot of societies which have, like your societies no deposits and which have only borrowed from central banks, but these are all unsound societies. and you must find out where the fault lies and cause a remedy. If you do so, you will get deposits. I have had such experience in districts.

Ch. Mukhtar Singh: If money is received as deposits, is it kept by the primary society or sent on to the central bank? It will be needed only at the time of agricultural operations.

Dr. Friederich: The first principle is to deposit money with the central bank to such an extent, enabling you to repay deposits at any time. In case you have fixed deposits, you may deposit a smaller percentage of the money with the central bank. The second point is with regard to investment: in case you have a good sound demand for credits, you use a part of the fixed deposits for granting credits and in case you have no sound demand for credits, you put the whole money into the central bank.

Ch. Mukhtar Singh: All these points are discussed by the management. In a country like India, do you think that the members of the primary societies can understand details of the work?

Dr. Friederich: In this respect I have, I suppose, a better opinion than you have. I do not see why you should not find such people in villages. I have met a number of people who impressed me as clever. It is really a matter of education.

Ch. Mukhtar Singh: In a number of villages you cannot even find men to look after the accounts properly.

Dr. Friederich: The Unions should be able to train men. The Secretary or the Treasurer should receive instructions. It is a matter for those who are responsible for the management of such societies, but it can be done by education. When you have more people who can read and write, it will get easier to find people to run the societies.

Ch. Mukhtar Singh: Do you not think it would be very difficult to remit money from the primary society to the central bank?

Dr. Friederich: I have recommended that the question whether this can be better solved by instituting special pay offices, for the central bank where urgently required, should be considered. The other point is about dealing in cheques. If a primary society wants money, the central bank's cheques should be as good as ready cash everywhere.

Ch. Mukhtar Singh: One has to go to the Tahsil at present to remit money as there is a treasury only in a Tahsil. It may be at a distance of 15 miles or more.

Dr. Friederich: It may be necessary to form several special pay offices within a district. On the other hand larger urban credit societies could deal as pay offices on behalf of the central bank, so that the primary societies could go to such urban co-operative banks and deal through them.

The cheques of local societies on the central bank should be honoured. They should also be able to make remittances to the central bank through urban banks.

Ch. Mukhtar Singh: On page 2 you say "a repayment of the invested capital can only be made according to the net profits obtained from the investment". Do you consider it really a practical proposition? If Government advance a sum of money, say for improvement of certain agricultural works, is it likely that the profits would be so large as to enable a portion of the capital to be repaid?

Dr. Friederich: It is a matter for Government to consider.

Ch. Mukhtar Singh: You do not insist on the point that the instalments should be so fixed that the net profits should be enough to cover them?

Dr. Friederich: The local co-operative society has to look after this matter.

Ch. Mukhtar Singh: Do you think that the instalments should be so fixed as to cover the net profits?

Dr. Friederich: The instalments should be paid out of the net profits.

Ch. Mukhtar Singh: It comes to the same thing.

Dr. Friederich: Part of the profits will be necessary for living and so on.

Ch. Mukhtar Singh: As far as the current needs of the agriculturist are concerned, it should not be disturbed in order to pay off the amount he has received for the improvement of agriculture. Take the case of a man who has taken a loan for his current needs and a loan for the improvement of agriculture.

Dr. Friederich: The latter is really invested for improvement of land.

Ch. Mukhtar Singh: That is granted, but the repayment of this loan should be spread over as many number of years as possible in which it can be paid without disturbing the current needs of the agriculturist.

Dr. Friederich: Quite so. They must be able to repay any instalments fixed by Government or co-operative society.

Ch. Mukhtar Singh: May I know whether the main business of the co-operative movement in your country is credit business or non-credit business?

Dr. Friederich: Both of them are of great importance and both are well developed. We started both at approximately the same time; with credit at about the middle of the last century, about 1850 and with the business in goods at about 1860.

Ch. Mukhtar Singh: What I wanted to know was whether in a country like India, where the crops may suffer on account of flood and other reasons, non-credit societies would be more advantageous or not.

Dr. Friederich: I think you should have both in India. I have already mentioned the connection between trade and agriculture; to bring the agriculturists out of the hands of the money-lending trade, it is necessary to have both, credit and non-credit (supply and marketing) society.

Ch. Mukhtar Singh: In the Assam and Bengal Provincial Banking Committees' reports you will find it mentioned that co-operative sale societies would not succeed.

Dr. Friederich: We can discuss that point when we come to Mr. McDougall's paper

Ch. Mukhtar Singh: I simply want to know whether in the circumstances in India you want special stress to be laid on non-credit societies or on credit societies.

Dr. Friederich: My opinion is that special stress should be laid on both.

Ch. Mukhtar Singh: So far, stress has been laid upon credit societies; the non-credit side of the work has been very little done.

Dr. Hyder: Can you tell us what the total number of credit societies in your country is?

Dr. Friederich: We have had in Germany 52,734 co-operative societies on the first of January 1930. Out of these 40,845 had been agricultural societies and amongst them 20,457 credit societies.

Dr. Hyder: Is it not a fact that the credit side of the problem is easier to take up than the non-credit side?

Dr. Friederich: I admit that co-operative marketing and supply is more difficult.

Dr. Hyder: Is it not a fact that your first line of advance in Germany was on the credit side?

Dr. Friederich: We started nearly at the same time with credit and with supply.

Dr. Hyder: But the main line of advance was in the direction of granting credit?

Dr. Friederich: The credit side was specially stressed by Raiffeisen but other leaders, for instance, W. Haas, stressed on supply too.

Ch. Mukhtar Singh: Do co-operative credit societies do nothing but credit work, or do they combine credit and supply work?

Dr. Friederich: I told you we have 20,457 agricultural co-operative credit societies. About 60 per cent. of the members of these societies are agriculturists, about 16 per cent. are artisans, about 6 per cent. are employees and officials (*e.g.*, schoolmasters, parsons, etc.), about 12 are work people (agricultural and industrial labourers) and the remaining 6 per cent. belong to other professions. It is much easier to effect a good balancing of demand and supply of money, if different professions callings are combined into a credit society. I gave you statistics for the members of about 16,000 credit societies, not for all 20,457.

Mr. Devadhar: But they relate to the whole country in general.

Dr. Friederich: I can tell you that the so-called agricultural co-operative credit societies are not all at villages, but a good number at small and middle-sized towns. In Germany we have developed an agricultural country into an industrial country. In 1882, 40 per cent. of the population of Germany were supported by agriculture in 1925, only 23 per cent. Similarly, villages have developed and many places which were villages 50 years ago are now towns. Where you had village societies, you now

have urban societies. A part of such societies has been included in my statistics as it is still a member of the agricultural unions.

Mr. Devadhar: A great transformation has taken place?

Dr. Friederich: Yes, Sir. It may be mentioned that we have special unions for urban societies too.

Ch. Mukhtar Singh: I want to know whether these agricultural credit societies do any business or whether they are simple credit societies.

Dr. Friederich: The small credit societies are at the same time supply societies.

Ch. Mukhtar Singh: Are societies doing supply work considered as credit societies?

Dr. Friederich: Yes, they are considered as credit societies because credit business is their main business. It would not be profitable to start a special supply society for small villages, therefore, the credit societies take up the supply business too.

Ch. Mukhtar Singh: So you do not object to a credit society taking up the work of a supply society also?

Dr. Friederich: I have no objection in case of pure agricultural credit societies. Where you have a considerable number of artisans or even small traders as members of credit societies, there it will be impossible to take up the supply of agricultural requirements.

Ch. Mukhtar Singh: Do you like the idea of allowing artisans and other people to be members of such societies?

Dr. Friederich: Usually they will not be interested in this special business.

Ch. Mukhtar Singh: You will not allow the supply work to be undertaken by credit societies only in those cases in which the artisans, etc., who are members are not interested, but if they are purely agricultural societies in which all members are interested, then you will have no objection for credit societies doing supply business also?

Dr. Friederich: Yes, Sir.

Chairman: Is this not purely a matter for the co-operators? If the artisans refuse to co-operate with the pure agriculturists (as is explained in some of the Provincial Reports), how can anybody meet the situation?

Dr. Friederich: In my country the artisans are mostly small agriculturists, so they are interested in agriculture and in supply business. At the same time they depend more or less as artisans on the agriculturists.

Chairman: Conditions in India are certainly different from conditions in Germany, and as Mr. Ramdas Pantulu has a great deal of experience in these matters I ask him whether it is not fundamentally a matter for people who want to co-operate.

Mr. Ramdas Pantulu: You are entitled to your opinion.

Ch. Mukhtar Singh: Mr. Lalji Naranji has said that it would not be correct for credit societies to do the supply work.

Chairman: The supply part is all right. I refer to the portion of the statement here that co-operative credit societies should not be confined to certain classes, but should cover not only the agriculturists but also the artisans.

Ch. Mukhtar Singh: Dr. Friederich has said that in villages where there are artisans as well as agriculturists living, he would like the idea; otherwise, there ought to be separate agricultural and artisan societies.

Dr. Friederich: Where you have an agricultural society which has a number of artisans as members who are not interested in any kind of goods business, then a special supply society has to be started for the agriculturists.

Ch. Mukhtar Singh: But if there is a credit society, it need not be restricted to agriculturists?

Dr. Friederich: No, it is better to call these societies rural credit societies, as they are started for the rural population, people living in the country.

Lala Harkishen Lal: In the Punjab they are village wide, some years ago they were only agriculturists, but now everybody living in the village is entitled to come into the society irrespective of whether he is a moneylender, or a Hindu or a Mohemmadan.

Chairman: That is not a matter which any outside person can settle.

Lala Harkishen Lal: One can induce the people and be more sympathetic. Ministers ought to do it.

Mr. Devadhar: In a village if the majority of the people are agriculturists and there are a small number of artisans who are useful to agriculture, they will be members of the society provided they have a special industry of their own, which needs special finance and which is to come from the small credit societies?

Ch. Mukhtar Singh: It will depend on individual cases. There may be possibilities of even the artisans coming in.

On page 6 you say "a co-operative society has to be free of politics". You do not mean that it should be free of political men?

Dr. Friederich: No. I mean that all people, whatever their political opinion may be, should be welcomed in a co-operative society. It should not be laid down that only people of a special faction or having a certain creed should be eligible to become members.

Mr. Ramdas Pantulu: This is brought in, because one bank went about canvassing the support of managers and secretaries of a society in an election campaign.

Ch. Mukhtar Singh: Suppose Mr. Pantulu holds a certain view in politics. He is a member of a provincial co-operative society. Is it a qualification for him?

Chairman: The point is this, they ought not to take sides in politics. That is all. Otherwise troubles arise and they may take sides with a political party and that party may not be in power and the other party may try to injure the cause of that bank.

Ch. Mukhtar Singh: If a recommendation goes from this Committee, it may mean the other thing also. There may be people who may not be unacceptable to the officials at certain times.

Chairman: There is no question of a recommendation going. This is Dr. Friederich's view.

Ch. Mukhtar Singh: If we agree that becomes our recommendation so I wanted to make it clear that it does not debar those people who have political leanings.

Dr. Friederich: I know from experience that it happens when the members of a Managing Committee are of a special political opinion and somebody else wants to become a member who is of another political opinion that his application is not accepted because he holds another political opinion. Anyone should be allowed to be a member of the society without considering his political views.

Ch. Mukhtar Singh: Anybody who is interested in uplift must have a right to join that movement.

Dr. Friederich: In my own country we refer even to religion because of religious differences. It is necessary to emphasise that a society should not care for religious contrasts of the members.

Ch. Mukhtar Singh: On page 8 you say "The position of a provincial registrar should be filled only by officials well trained and experienced in co-operation". Do not you feel that an administrative experience is much more important than a training in co-operation?

Dr. Friederich: Both are important. You have for instance, Mr. Darling. He leaves his office in October and then the Punjab gets another Registrar. I do not know exactly what his position has been but he has, according to my knowledge, never been busy in the co-operative movement and he has become Registrar for the whole co-operative movement of the Punjab.

Ch. Mukhtar Singh: You do not consider a man to be competent merely because he has xperience of administration?

Chairman: Dr. Friederich is not aware of the organisation of services in India.

Ch. Mukhtar Singh: I am simply asking whether he will insist on the administrative experience to such an extent that even training and experience will be given a second place.

Dr. Friederich: I cannot judge because, as the Chairman has told you, I am not aware of the special education of Government officials. I stress only on the point that it is necessary that a Registrar should be trained and experienced in co-operation. I do not mind what other job he held before he became Registrar.

Mr. Devadhar: With regard to the figures on page 1 which relate to agricultural societies. We find that the share capital is reserved for loans of these rural societies and amounts to something like 8 out of 30 crores of the working capital and in Table 2 we find that the share capital alone is 3 crores out of a total of 10 crores.

Dr. Friederich: I agree that these societies have quite a big share capital. It is a good relation between working capital and share capital. My criticism refers especially to lack of deposits.

Dr. Devadhar: They are started with the purpose of helping but that does not mean that everything has to be provided. Is that your recommendation also?

Dr. Friederich: I do not deal with share capital and reserves because I am of opinion that share capital and reserves are quite sufficient for your primary societies. Therefore, I did not stress on this point. I am only of opinion that the relation between deposits and working capital is very bad.

Mr. Devadhar: Why I am drawing your attention to these figures is to remove the impression which exists that co-operative societies were started without anything. It is not so.

Dr. Friederich: You shall see that I do not criticise in my report the work which has already been done, because I know that co-operative work is a very hard one and I acknowledge all your endeavours and all endeavours of the co-operative movement in this country. I wanted only to give the lines on which co-operative work should be continued in future.

Mr. Devadhar: Some statements in this paper say that the primary societies, as far as possible, should finance themselves and may make someone believe that they start without anything at all. I wanted that impression to be corrected. Supposing somebody were to say that these primary co-operative societies should deal only with the market would not that be a good advice?

Dr. Friederich: I am of opinion that it would be better to deal with a smaller working capital consisting of a sufficient amount of deposits than to start at once with a big loan from a central bank.

Mr. Devadhar: Supposing I mention to you that a society which started, about 20 years ago, with a total capital of Rs. 4,200, out of which Rs. 2,000 came from Government—in those days Government used to advance up to Rs. 2,000 on condition that the people collected a similar amount—now that society has risen to the position of a society with a capital of nearly 2 lakhs and a reserve fund of 60,000 without borrowing any money from the provincial bank.

Dr. Friederich: That is sound. That is the idea which I have in mind.

Dr. Friederich: According to these statistics I have to judge that primary societies in the Bombay Presidency have the soundest basis. I compare deposits and loans with the working capital, and I really think the primary societies in the Bombay Presidency are on the soundest basis.

Mr. Devadhar: I am not speaking on behalf of Bombay Presidency, but I would like to suggest that generally speaking, your proposition is very true, that the prosperity of the country depends to a large extent upon improved and advanced agriculture. Will you please tell me what is your standard of this prosperity, Whether you have ascertained the percentage of the population dependent upon agriculture?

Dr. Friederich: I was not able to ascertain the figures with regard to the indebtedness. Even the provincial committees were not able to ascertain the right figures. You have estimates, but estimates are only estimates, so I did not like to make up my mind on this point. I remember the indebtedness has been estimated at about 900 crores, but my personal conviction is that the indebtedness is much greater. In my country we have nearly the same indebtedness and that is quite impossible as my country is only one-tenth of the area of India. Of course, our agriculture is much more intensive. Nevertheless, I think this amount is estimated too small.

Ch. Mukhtar Singh: Therefore, I take it you would consider it rather risky to work out any percentage of the people who can be described as being in debt?

Chairman: The indebtedness of the peasantry in Germany is in the neighbourhood of 900 crores?

Dr. Friederich: It is about the same amount. Therefore, when I compare the rates of interest here with those of my country I am convinced that the indebtedness is much higher. You know you have sometimes rates of interest up to 50 per cent. Within two years you have double the indebtedness. Take on an average 25 per cent. for debts and if you have compound interest, then you have double the indebtedness in about 3 years.

Chairman: It will be difficult to make any estimates on a comparative basis because you must remember what Mr. Darling has said, as a result of his investigations, that with prosperity indebtedness goes, and it is probable because the annual income of the peasant in India is much smaller than the annual income of the peasant in Germany that, relatively, the indebtedness in India may be less than the indebtedness in Germany.

Mr. Devadhar: Mr. Darling says that even in places where there is agricultural prosperity there is indebtedness as is found in places where there is poverty. It must be much more with a population of nearly 5 to 6 times bigger here. He is making a great point that for the life of the people of this country it is very necessary to have prosperous agriculture, therefore, I would see that some efforts are made.

Mr. McDougall: I think, Mr. Chairman, if you are going to arrive at any approximate estimate, you should take the value of the German farm on the one hand and the capital value of your farm. On that basis I am inclined to think that the 900 crores in India are a greater burden than the 900 crores in Germany.

Dr. Friederich: I quite agree.

Chairman: The 900 crores in India are heavier on the farmers than the 900 crores in Germany, that is owing to the greater poverty of the people in India.

Mr. McDougall: Oh yes, undoubtedly. We do not think anything, for instance in England, of a man being indebted to us to the extent of £200 or £300.

Mr. Devadhar: Will you please tell us any concrete proposals for the purpose of this indebtedness and to achieve prosperous agriculture.

Dr. Friederich: By economic and social uplift.

Mr. Devadhar: I am talking of indebtedness. Will you suggest us some remedy by means of which this problem could be solved?

Mr. McDougall: I do not deal with that in my paper.

6th March 1931.

FINANCIAL REQUIREMENTS OF INDUSTRIES.

Provisional conclusions arrived at by the Indian Central Banking Enquiry Committee.

1. Generally speaking initial block capital for industrial enterprises should be put up by private or public subscription. Block capital for subsequent improvements and extensions, such as is not provided out of undivided profits, should be provided by increase of share capital or by issue of debentures; but pending a favourable opportunity for such further issues, commercial banks might be expected to supply finance for these purposes in the form of *temporary* advances, provided that adequate security is forthcoming.

2. Further the ideal arrangement is that industrial enterprises should also provide out of their initial capital, the minimum necessary working capital, the amount of which will depend on the particular facts connected with each industrial enterprise and that any extra requirements for working capital might be met by short-term advances from commercial banks, which would be entitled to require that the industrial enterprise maintains a safe and proper relation between owned and borrowed capital.

3. Banks in Germany make their advances against the security of the block, the liquid assets of the industrial enterprises being left unencumbered as security for suppliers of raw material, etc., to the enterprise. In Canada, banks are prohibited by law from advancing against immovable property and advances are secured by liquid assets, but banks are allowed to take real estate as additional cover to an existing debt. The practice thus varies from one country to another and no hard and fast rule can be laid down regarding the form of security for advances. But industrial concerns in India may reasonably be expected to have the whole of the working capital supplied by commercial banks, if adequate security is offered.

4. Banks in India lend much less on personal security than is advanced in other countries. They demand tangible securities or additional signatures of sureties.

5. Useful liaison between banks and industry may be created by the appointment of one of the Bank's Managing Directors, General Managers, or Managers, as one of the Directors of the industrial concern financed by the bank. Besides the furnishing of periodical balance sheets and the representation of a member of the bank's management on the boards of companies, it is necessary for the establishment of an effective liaison that the entire banking business of an industrial concern, requiring accommodation from a bank carrying on industrial finance, should be concentrated in the hands of that bank and not split among several banks.

6. While it is true that the cotton mill industry in certain centres of India has depended on the deposits from the public and its private share capital for its successful growth and development, it is desirable that with the co-operation of banks these deposits should be replaced by debenture capital as soon as possible.

7. Both in connection with the above conversion operations and the further issue of shares and debentures for extensions and improvements, such

of the existing commercial banks as are well established, and carry on their ordinary banking business on the safest and soundest lines, might with some advantage to the industries follow, as far as possible, the German system. Under this system, in addition to the ordinary banking business which is decidedly the most important department of the German bank, there is a department for industrial and similar finance with a limited share of the bank's own resources for carrying on financial transactions arising from time to time in its relations with industrial and similar joint stock companies. The German banks through these departments make share and debenture issues for their customers either separately or by forming syndicates, but they depend in all cases on early sale in the capital market of the share of the issues they have taken over. The amount invested for industrial concerns in such stock transactions is kept in conservative relation to the share capital and reserves of the banks and while it remains more or less stable in the aggregate, its composition is changing as quickly as market conditions will allow.

8. It is possible that the Imperial Bank, as soon as the Reserve Bank comes into being, may make a start in the above direction and give a lead. The bulk of the joint stock banks in India are at present not ready for this activity and even the larger ones can only cultivate it slowly, with great caution and preferably under strong guidance as participants in strong syndicates.

9. The system of Managing Agents in India occupies an important place in the organisation of industries. We consider that an attempt should be made to make industrial enterprises in India less dependent on this system for future development. The establishment of direct friendly relations between industrial companies and commercial banks is desirable especially in view of the capital demands that are likely to arise in connection with mergers and reconstructions following the present economic crisis.

10. The appointment of Advisory Committees in banks by the Board of Directors is very useful and desirable.

11. (*a*) As an exception to what is said in (1) above, a Provincial Government may, in the discharge of its responsibilities for the development of industries within its territories, find it necessary to ensure the supply of financial facilities to industrial concerns and in such cases we recommend the establishment of a Provincial Industrial Corporation working with capital initially or permanently supplied by the Provincial Government. We note that five of the Provincial Banking Enquiry Committees have recommended the establishment of such institutions, and have referred to particular types of industries which need financial assistance. Our proposals will cover the case of such industries, though they will not be necessarily restricted to them.

This recommendation assumes that the development of industries within their territories will be one of the functions which will vest in the Provincial Government under the constitution and that there will be no undue interference with their borrowing powers from a central authority.

(*b*) Government should take such portion of the share capital of the Corporation as cannot be raised by public subscription.

(*c*) The share capital may be supplemented by debenture capital not exceeding twice the amount of the share capital at the outset. There should be no difficulty in raising this proportion of debenture capital if

the investments of the Corporation are sound. In order to attract investment in such debentures, if it is found necessary by Government to offer a guarantee of interest on the debentures, Government may give limited guarantee, *e.g.*, limited to the first issue of debentures, or limited to a certain period of currency of the debenture issue.

(*d*) Government may, if necessary, purchase a portion of the debentures until a regular market has been created for these debentures.

(*e*) The industrial Corporation may secure additional resources by taking long term deposits from the public, but an immediate beginning in this direction with deposits for less than 2 years is undesirable, as that might create competition with existing joint stock banks. When long term deposits are taken, the money thus acquired should be lent out for the same period as that of the deposits.

(*f*) In cases where Government subscribes to the share or debenture capital of the industrial corporation or guarantees interest on its debentures, it should be entitled to be represented on the Board of Directors during the continuance of such interest in, and liability for, the concern.

(*g*) Should the Provincial Government so desire, the Government Director will be entitled to ask for a reference to the Government if he does not agree with the views of the majority in regard to important matters like increase or reduction of capital, granting of loans in any particular cases and appointment of chief officials.

(*h*) The Committee recommend that bye-laws should be framed by the Corporation defining the conditions under which financial facilities may be granted by it to industrial concerns. When Government has an interest in the Corporation, such bye-laws will require the sanction of Government.

12. When in a province an Industrial Corporation has been established on the lines contemplated in (11) above, Government assistance in regard to capital under the State Aid to Industries Act should be given through that Corporation.

13. There are, and will be, certain industries mostly of a national or important character, the development of which will fall within the functions of the Federal or the Central Government and not of Provincial Governments. Further, Provincial Government may themselves seek in certain other cases the formation of an All-India Bank to secure proper liaison in the matter of finance and a direct connection with the large spending departments of the Central Government, as well as direct co-relation for the industries as a whole with railway rates, customs, stores purchase and other policies of the Central Government. As the Central Government will have no territory of their own and as the collective benefit from the All-India Corporation will flow back to the Provinces, the general economic considerations leading to the establishment of such an All-India institution may find strength from the support of the Provincial Governments. There must, therefore, be cases in which the vehicle of giving the financial aid should preferably be an All-India Industrial Corporation. We should like it to be clearly understood that our recommendations do not rule out the formation of such an institution when its need is established to the satisfaction of the Federal or the Central Legislature.

14. Small industries and some cottage industries should be developed with the aid of co-operative banks. It is not necessary for the co-operative banks to have industrial or technical advisers on their permanent staff. A

manager with ordinary common-sense should be able to carry on and there should be no difficuly in securing valuable advice and guidance from the people in charge of large-scale industries without any cost. German experience in this field is worth studying and this might be done by deputing men to go and study the problem on the spot, as it is not possible to lay down general principles in the case of small industries as in the case of large industries. Government assistance should be given in connection with propaganda and education and there is no objection to Government providing funds if the movement grows on a large scale and there is an actual lack of funds.

(This portion may require amendment as a result of later discussions with Dr. Friederich).

15. The hardship caused to industry by the seasonal rise in the Imperial Bank of India rate and the remedy therefor, as also the establishment of investment trusts, are dealt with in the section on the Money Market.

Chairman: I propose to take first, Mr. Cassels, the provisional conclusions that we have arrived at on the subject of "Financial Requirements of Industries". Have you any observations to make on our paper?

Mr. Cassels: With item No. (1) of the conclusions, we are in agreement and have no suggestions to offer. With regard to item (2) we suggest the substitution of the word "sound" instead of "ideal" and in the third line of the same item the substitution of the word "normal" for "minimum". Otherwise, we have no remarks to offer. In item (3), in our opinion, it is better to put in the words "short term" instead of "their" in the first line and to alter the last sentence in the same item as follows:—"Industrial concerns in India may be expected to have some of the working capital supplied by commercial banks as a temporary measure if adequate security is offered".

Chairman: I should think that this last change which you suggest is more fundamental. If members have any questions to put on this point they are at liberty to do so.

Mr. Manu Subedar: I want to know, Sir, what is it that we are doing. I do not understand the procedure.

Chairman: As for the procedure it is quite simple. These gentlemen are making observations on our paper, Whether, in view of these observations, we will make any changes in the paper or not is a matter for us to decide in the Committee. Because they propose to make some fundamental changes in our paper, I asked the members whether they had any questions to ask of them.

Mr. Ramdas Pantulu: Is not changing "minimum" into "normal" fundamental?

Chairman: I agree it is. You are at perfect liberty to ask them any questions that you desire.

Mr. Manu Subedar: Can't we agree to differ from their suggestions?

Chairman: You may if you choose. We all agree to differ. If any member wants to discuss these matters he may certainly do so.

Dr. Trip: Are we to understand that after you have considered the changes that we propose, you will make up your mind and tell us whether or not you can agree to the changes we propose. On that basis we can make up our mind whether we have to write our own Report or not.

Chairman: That is the precise position.

Mr. Ramdas Pantulu: I think we have obtained the views of the experts completely on all these points and I think we will only be wasting our time if we go through them again.

Chairman: I began with this paper because this is the most simple paper on which the Committee had arrived at practically unanimous conclusions.

Mr. Manu Subedar: I do not see any need to change the conclusions arrived at.

Mr. Rushforth: Would you kindly explain why you want to change the word "minimum" into "normal"?

Mr. Cassels: "Normal" as distinct from "minimum" means the amount of working capital that the company will normally require. We think it is a better phrase.

Chairman: Would not minimum be a better word? One can certainly know what the minimum is going to be, but it might be difficult to define what normal requirements are.

Dr. Trip: It may be only a question of words. You can always find, in my opinion, the normal level of the working capital. During the busy season a concern may want to have a larger amount of working capital when they may have to resort to the commercial banks for their requirements. If you agree to this conception of the minimum, then we have no objection to your calling it in whatever term you like. It is only the question of what they require the whole year round. What they require over that during the busy season, they can always borrow from the banks.

Mr. Lamond: There is no reason why companies should not borrow permanently. The bank could restrict its credit in normal times.

Dr. Trip: But that is a dangerous position to take.

Mr. Lamond: It is quite a sound proposition from the bank's point of view. I do not know whether it is an ideal from the company's point of view.

Chairman: If adequate securities are offered to banks by industrial concerns, I do not see why banks should restrict their credit and I am pretty sure if we turn up our discussions with Dr. Jeidels, we will find that in Germany the same arrangement exists.

Lala Harkishen Lal: Cases arise, *e.g.*, in sugar for the last 5 years. The price has been dropping continuously. Therefore the margin of working capital in a particular mill might disappear.

Dr. Trip: That is quite right. Banks can only give a part of the sale value of the security and therefore you never can expect the bank to give more.

Chairman: The whole working capital does not necessarily mean the whole value of the securities. If I may say so, if a particular concern can produce adequate security for the whole of its working capital what is the objection to getting its whole capital in that way? Lalaji's point is that a concern may not be in a position to provide full liquid security. If it cannot produce security for the whole of its working capital it will not get that credit but if it is in a position to provide adequate security for its full working capital, where is the danger to the industrial concern or the bank to take and give credit as much as is required?

Dr. Trip: There is this danger to the bank. If the price of the commodity falls, then there will be difficulty.

Chairman: The bank can always ask for additional security under such circumstances.

Dr. Trip: Our principal objection is against the last sentence under item (3) where it is said that the whole of the working capital should be provided by the bank.

Lala Harkishen Lal: It can lend on debentures.

Chairman: You are referring to commercial banks.

Lala Harkishen Lal: So far as Mr. Lamond's remarks go, as long as the security is there and new goods come in and old goods go out, the banks would not hesitate to give advances. There are, however, cases when

although there was ample security, banks have recalled the loan. One hears these things from Madras to Kashmir. Historically, it has not been done in the past. We are going to mend. Very likely the banking attitude will also improve or change.

Mr. Cassels: It is a danger, of course, to the bank and to the borrower if the whole working capital is supplied by the banker. Where is the liquid cover to come from if there is no working capital?

Lala Harkishen Lal: Banks do not, as a rule, treat coal and stores as cover, but sometimes they do. It depends on what information they are able to get.

Mr. Lamond: Take the case of a cotton mill in Bombay. Ordinarily a cotton mill finances its stock in process, stores, coal, and things like that. It has 30 to 40 per cent. margin on its stocks which are moving; cotton comes in, and stocks go out. and the mill always requires money for that purpose. It will be more than the minimum, and I do not see any objection to that.

Dr. Trip: We do not see any objection.

Mr. Lamond: Before the cotton is produced the mill will have to supply the margin from stocks which it holds for sale.

Mr. Cassels: That is not the proposition here.

Dr. Trip: It is a question of wording. We can come to an agreement if it reads "But industrial concerns in India may reasonably be expected to have such a part of the working capital supplied by commercial banks as they can offer adequate liquid securities.

Lala Harkishen Lal: If you say 'adequate liquid security margin' it should be all right.

Chairman: We discussed the word 'margin' and we decided on the advice of the expert bankers to use the word 'security'.

Mr. Lamond: 'Security' includes 'margin'.

Dr. Trip: It is so in banking parlance.

Chairman: We are a banking committee and we have to make use of expressions as understood in the banking world.

Dr. Trip: Your report will be read by others.

Chairman: At the present moment we are concerned with bankers. Experts are bankers, and here we have got many bankers, and every word used here is intended in a banking sense.

Lala Harkishen Lal: In Indian banking sense.

Mr. Currie: The report and conclusions will also be read by the trader, and if he reads that the whole of the working capital can be got by producing adequate security, we fear that he will misunderstand it.

Chairman: If he is an Indian trader and knows the security which banks in India ask for, why should he misunderstand it? It may be that the trader in England or in America may misunderstand it.

Mr. Currie: He will say, 'Here is the report of the Banking Committee. Why don't you do as they suggest?'

Chairman: The banker will say, "You do not produce 'adequate' security."

Lala Harkishen Lal: Things of that kind can happen in connection with our memorandum of association. In certain cases it states that the bank will buy shares and Government paper for its clientele. Some people write to us, 'Why don't you buy your own shares; you have stated so and so in your memorandum.' There is no difficulty. Generally the ordinary meanings are really those on which people work.

Mr. Cassels: My experience of that expression is usually this. A loan is arranged on liquid security with a margin. The margin may be 10 per cent., 20 per cent., 25 per cent., or 30 per cent., depending on the class of goods.

Chairman: Is not that covered by "adequate security?" Who will decide what is adequate security? Surely the authority that grants the loan. We discussed this very fully, and the words 'adequate security' were used because I was told by the bankers that it would cover everything. The person who has got to decide the adequacy of security is the banker.

Mr. Cassels: "Adequate" might refer to the "class" and not to the "amount" of security.

Chairman: It means everything: adequate means, 'adequate security for the transaction'.

Mr. Lamond: Security acceptable to the bank.

Mr. Ramdas Pantulu: The banker is the sole judge.

Dr. Trip: It is quite true. But the trader says 'If it is left fully to the bank to decide what I can reasonably expect, what is the good to me? I must have a voice in the question whether or not I offer adequate security'. If you will leave it as it is, they will have a stronger basis for their claim against the bank to the extent they can supply what they think adequate security.

Lala Harkishen Lal: Are we really now prescribing a charter of liberty for the trader?

Chairman: Who is to decide whether the security is adequate or not? In some cases in India banks do not object to accepting other forms of security; even the Imperial Bank, I know, has given advances on what is known as personal security. The interpreter of "adequate security" is surely the banker even if, according to your formula, the trader gets what you call working capital to the extent to which he can provide adequate liquid security. Even where the security is adequate, advances may be made to one party and not to another. We have been told that in that matter discrimination is made in favour of Europeans as against Indians. Therefore, we wanted to lay down a general proposition, but all the same the adequacy of the security can only be decided by the banker.

Dr. Trip: We have two objections. We have objection to the words "whole working capital," and to the words "adequate security." For instance if a firm has a large amount of Government securities and not a penny of their own for working capital and they want to get the whole working capital on the basis of the Government securities, do you think that it will be a desirable situation to give, year after year on the basis of these securities, the whole working capital to such a concern.

Chairman: The Imperial Bank which is the most conservative is bound to give loans on Government securities from month to month and from year to year.

Mr. Lamond: There was a concern with a big portion of its working capital invested in Government paper, and when they wanted money to start they applied with Government paper for the advances they required.

Dr. Trip: But it was not the whole of the working capital.

Lala Harkishen Lal: One hears from time to time from England that such and such a mill is in the hands of receivers. Even to-day I was negotiating for certain machinery. As soon as the prices were nearly settled there came a telegram that the factory is in the hands of a receiver at the instance of a bank, and I am stuck up there. Evidently the bank in London advanced money which could not be realised from liquid assets.

Dr. Trip: If the concern is already in a difficult position the bank may go further. They have to consider what is best for their own position. But this rule that you want us to accept is intended for normal circumstances.

Chairman: The bank decides what is adequate security. We do not want in any way to fetter the discretion of the management. As I said at the beginning, the conclusions recorded in this paper were absolutely unanimous.

Dr. Trip: I feel that some confusion will arise when this conclusion is made public. It will lead to something apart from what your real opinion is, because we ourselves experienced the same difficulty.

Mr. Currie: We only want to provide against any misunderstanding. A man, for instance, may start a factory with insufficient capital on the assumption that he is going to get the whole of his working capital from his bank. He may then in all good faith go to his banker and say, 'I reasonably expect you will supply my whole working capital, and I have got no more money'. In that case he will be entirely unable to start work although he has provided the whole of his block capital.

Chairman: That misapprehension could only arise if the words "adequate security" were not there. If he goes to the banker and says, 'I have got no security to offer you, but I reasonably expect you to supply me my working capital', he would obviously be out of court. But if, for example, he has raised a certain amount of money with which he could start his concern, and own what even a bank would consider adequate security, then of course he will reasonably be entitled to start business and expect advances from the bank.

Mr. Currie: If he was not such a clever man, he might say, 'Here is my factory, this surely is 'adequate security'.

Chairman: If he is not a clever man he ought not to run a factory. Anything we write cannot be made fool-proof. We are writing in such a way that it will, so to say, appeal to the ordinary businessman. If a man has got no security to offer, and if he still expects that he can get his working capital from the bank, we cannot help him.

Dr. Trip: Then we must reserve to say what we mean by these words.

Chairman: We will proceed further.

Mr. Cassels: No. 3. We do not agree with the last sentence.

Chairman: We have taken note of it.

Mr. Cassels: No. 4. No comments.

No. 5. We agree.

No. 6. We agree.

No. 7. We agree.

No. 8. We agree.

No. 9. No remarks.

No. 10. All right.

Mr. Currie: For No. 11, I propose the following:—

"As an exception to what is written in (1) and in order to expedite development a provincial Government may deem it expedient to form an Industrial Corporation. This corporation should in the main confine itself to financing works of a public utility nature. It may, however, do pioneer work in assisting by finance the development of mineral resources or the starting of an industry which does not at present exist in India. As it is anticipated that such a corporation could only be started if the provincial Government were to find a large proportion of the capital, the corporation should not finance any concern which would come into competition with an existing industry in India. If such a co-operation is to be real success it must confine its business to financing concerns of an important size and not too varied a nature. It must be managed and directed by businessmen, although some of these may be appointed by Government, and it must find its funds from capital and debentures, a proportion of 2 to 1 for debentures should not be exceeded.

If the provincial Government find the capital there should be no question of its guaranteeing the debentures.

Chairman: We will take a note of that. There is not the slightest possibility of our accepting that advice. This was discussed very fully.

Dr. Trip: May I ask a question for my information? On page 3 you say: This recommendation assumes that the development of industries within their territories will be one of the functions which will vest in the provincial Governments under the constitution and that there will be no undue interference with their borrowing powers from a central authority". So you are of opinion that the provincial Governments will be free to enter the money market and borrow on their own account.

Chairman: No. It does not follow. They may take a loan from the Central Government. All it means is that there will be no undue interference, if the provinces want a certain sum of money and can provide for the service of the loan in its own budget. It can take the money from the Central Bank or raise a loan in the open market. These methods are open to it now. The only stress here is on undue interference.

Dr. Trip: It does not mean a fundamental change in the present practice?

Chairman: Practically none. We put it in because Lala Harkishen Lal mentioned an instance of such interference when he was Minister for Industries in the Punjab.

Mr. Ramdas Pantulu: Please refer to item 11 (*e*). The period must not be longer than the period of deposits.

Chairman: Yes.

Dr. Hyder: Mr. Cassels, in (*e*) we talk of industrial corporations getting deposits. I ask you whether this recommendation in any way conflicts with recommendation No. 6.

Chairman: We might discuss this in the committee. If you had put that question to me, I would have pointed out that there is no conflict.

Dr. Trip: We are of the same opinion.

Dr. Trip: Paragraph 13. If our amendment on paragraph 11 were adopted, this paragraph should be changed accordingly. Apart from that, I should like to ask a question. Would it not be advisable, or in any case conceivable, that provincial Governments may seek the influence of an All-India Bank not only to secure liaison in the matter of finance, etc., but also to achieve a kind of co-ordination among provincial institutions? I suppose they can do that of their own free will, and apart from this liaison, they might think it advisable to have a central body in order to come to co-ordination whilst remaining free according to their own constitutional rights.

Chairman: I myself started that suggestion, but the Vice-Chairman pointed out that it would not be workable, and I withdrew my suggestion.

COMMERCIAL BANKING.

Provisional conclusions arrived at by the Indian Central Banking Enquiry Committee.

1. The figures of deposits for ten years from 1919 to 1928 with the various classes of banks are as under:—

(In crores of rupees.)

	Imperial Bank of India.	Exchange Banks.	Joint Stock Banks.
1919	68	74	61
1920	78	75	73
1921	66	75	80
1922	57	73	65
1923	74	68	48
1924	77	71	55
1925	78	71	58
1926	74	72	63
1927	72	69	64
1928	71	71	66

It is not correct to infer from these figures that the banking resources of India are limited, for, one has to take into account the following factors:—

(*a*) The number of principal towns which possess a bank or a branch or agency of a bank was only 339 in 1928. It has to be remembered that the number of towns in India is about 2,300. It is true that the investigations of the Provincial Banking Enquiry Committees indicate that there is little hoarded wealth in the country held in precious metals other than investments in ornaments and jewellery. But it is obvious that the absence of banking facilities at most of the urban centres must result in the temporary locking up with individual possessors of large sums of money which may be required for expenditure later but which, if commercial banks were in existence at such centres, would be made available for the development of credit facilities, particularly to meet seasonal requirements. We have not overlooked in this connection the existence of indigenous bankers, but it appears from the reports of the Provincial Banking Enquiry Committees that it is not the universal practice of these bankers at all places in India, to accept deposits from the public. Considering the fact that the vast

bulk of the people live not in towns but in villages, the absence of banking facilities to the people at large becomes all the more noticeable.

(*b*) The deposits with co-operative central banks and banking unions on the 30th June 1930 were Rs. 18½ crores. Further, in spite of various restrictions on investments in the postal savings banks and post office cash certificates, the figures of these accounts increased from Rs. 27 crores in 1921-22 to Rs. 72 crores in 1929-30. These facts together with the increase in Government borrowings by short term loans and treasury bills, at any rate, during the last few years, indicate the existence of potential banking resources in India.

(*c*) Although no accurate figures of export of capital from India are available, it is generally accepted that the resources which would ordinarily have remained in India have in recent years a tendency to be remitted abroad, and this would partly affect bank deposits.

(*d*) The duplication of deposits is very much less at present than before, balances of Exchange Banks and joint stock banks with other banks and interlending among banks being very much less than 10 years ago. The deposit figures of 1928 would, if these balances were excluded throughout the decennium, show a larger increase during the ten year period than is apparent.

(*e*) The last years of the decennium were years of trade depression while the earlier years were of the boom period. A statistical comparison of the mere figures of total deposits therefore does not convey a true idea of the position. We may note in this connection the corresponding figures of deposits with the various classes of banks mentioned above for the years 1900 and 1910.

(In crores of rupees.)

Year.	Imperial Bank. (Three Presidency Banks.)	Exchange Banks.	Joint stock Banks. (With capital and reserves of Rs. 5 lakhs and over.)
1900	13	10	8
1910	32	25	26

(*f*) It may be noted that the capital of indigenous bankers and their deposits are not included in the table at the beginning of this paragraph as the figures are not available.

2. It will be a long time before India is provided with a net-work of branches of joint stock banks. Partly for this reason and partly to utilise the valuable knowledge and resources of the indigenous bankers, it is necessary to link up the latter with the Reserve Bank and thus strengthen their

present position and increase their ability particularly for the purpose of providing banking facilities in areas, where there is no bank at present, and to classes of population whose requirements are not generally catered for by the joint stock or co-operative banks. The exact method of linking the indigenous bankers with the Reserve Bank is dealt with separately.

3. It is not advisable in the larger interests of the country to restrict in any way the branch activities of the banks in India, even though it may result in over-banking in certain up-country places and in weaker banks, under the stress of competition, offering higher rates for deposits and accordingly giving loans at higher rates and increased risk. The question of imposing any restrictions on the opening of new branches by existing exchange banks and of requiring banks in general to take out licenses is dealt with separately.

4. The position of the Imperial Bank of India, as the bankers of Government, gives it an advantage over the Indian joint stock banks, but the competition between these is not at present dangerous, though certain witnesses have drawn the attention of the Committee to the fact that the competition is keenly felt. There is no competition at present in regard to borrowing rates and that in regard to lending rates is beneficial to the public. The question whether any special restrictions should be imposed on the operations of the exchange banks is examined separately.

5. If banks could not open full-fledged branches as not being warranted by the business expected, we recommend for their consideration that they should open sub-agencies which might develop into branches later.

6. No obstacles should be put in the way of mergers among smaller joint stock banks by stamp duties or taxation, and any existing obstacles in this direction should be removed. For example, if an amalgamated bank comes under the super-tax law, while the old individual banks were free, an exemption from super-tax for a limited period is recommended.

7. The question of the control to be imposed on a bank securing a majority ownership of another bank's shares will be considered in the section on Regulation of Banking.

8. The practice, which joint stock banks and the Imperial Bank are cultivating, of giving loans against gold ornaments is of two-fold benefit to the country; it introduces banking facilities for borrowing and saving to classes of people unaccustomed to the use of banks and it saves these classes of the population from the high rates of the moneylender.

9. The extension of banking facilities for borrowing and saving will be facilitated by the use of vernacular scripts in the various fields of banking. The main scripts are 13 as noted below and each province would need 2 to 4 scripts to be recognised:—

1. Assamese; 2. Bengalee; 3. Burmese; 4. Devnagri; 5. Gujerati; 6. Gurmukhi; 7. Kanarese; 8. Malayalam; 9. Modi; 10. Sindhi; 11. Tamil; 12. Telugu; 13. Urdu.

10. The relations between commercial banks and industries and the possibility of developing such relations on the lines of the German System are dealt with in a separate memorandum dealing with the financial requirements of industries.

11. Existing commercial banks have invested a relatively large proportion of their resources in Government securities as compared with bills, but the position should improve with the passing of the present trade depression, the creation of a Reserve Bank and the development of a Bill Market in India.

12. Bank advances fall under three classes (i) advances against tangible and saleable security lodged or pledged with the lender; (ii) clean advances against personal credit with a second signature to the pro-note; (iii) clean advances against the personal credit of the borrower only.

In India advances *are mostly* of classes (i) and (ii) while in western countries with highly developed banking systems, advances of class (iii) occupy an important place. The difference between the position of India and such other countries is due to various reasons. The principal reason is the tradition established by the old Presidency Banks and later followed by the Imperial Bank of India, based on the restrictions imposed upon them under the Acts governing their operations. This tradition has been followed by other joint stock banks and has been reinforced by the provisions of the Indian Companies Act, which demands a statement of loans under a separate classification showing secured and unsecured advances. The granting of unsecured loans on properly appraised credit, instead of being regarded as perfection of banking, is actually regarded by the shareholders as making for lack of safety for the bank and evidence of unsound banking.

The other reasons are:

(*a*) the absence of touch and the lack of knowledge resulting therefrom between borrowers and lenders in the pricipal money market centres;

(*b*) absence of the policy of 'one man, one bank' which obtains in western countries;

(*c*) the practice in India has been materially assisted by, and has in its turn fostered, the Managing Agency system;

(*d*) absence of institutions like 'Seyds' and 'Duns' for supplying information about the financial standing of the banks' customers.

13. We consider that banks in India generally should adopt a more progressive policy in the matter of granting clean advances on the personal credit of borrowers only. In our opinion the change will be facilitated by the growth of the practice 'One man, one bank'.

14. We understand that individual banks at present maintain agencies for obtaining information in regard to their customers. The problem of pooling this information and organising some system of collecting reliable information suited to the needs of Indian customers and conforming, as much as possible, to Indian custom should be studied by the banks and the Bankers' Association proposed by us.

15. In order to open up the field of banking, any existing legal hindrances ought to be examined and removed if possible. Please see in this connection the chapter on 'Legislation and Legal Procedure' in the summary of Provincial Banking Enquiry Committees' Reports.

16. The system of bank acceptance, which widens the banking facilities offered by commercial banks, especially for purposes where cheap and regular three months' credit is desirable, does not obtain in India. The introduction of the system depends for its success on the creation of a discount

market and a Reserve Bank, as a bank giving its acceptances wants its acceptances to be readily negotiable and to have a Central Banking Institution which will be ready in the last resort to discount such acceptances and thus protect the acceptance market and the prestige of the banks giving their names to the acceptances in that market.

17. There is no co-operation between banks doing commercial business in India (including indigenous bankers) which could improve the standard, eliminate the element of weakness, and foster the combination of smaller banks to larger units. An association of all such banks should be formed as early as possible to render such co-operation possible and to represent the interest of such banks at large to other institutions including the future Reserve Bank and the Government.

18. The suggestion that Postal Savings Bank should permit deposits being withdrawn by cheques will be separately considered but the development of any other banking business by these Savings Banks is not recommended at this stage, as it would make it more difficult and less attractive for joint stock banks to open branches at suitable places. It would also interfere with the desirable development of the indigenous bankers and of Co-operative banks.

Md. Cassels: We have no principal objection to clause, 1 (*a*), but I should like to know the definition of the word 'town'. What is the minimum population for a town?

Chairman: A town is defined in the Census Reports. It is one which has a population of 5,000 or more.

Mr. Cassels: It is stated here that "the number of principal towns which possess a bank or a branch or agency of a bank was only 339 in 1926". It would be useful to us to know what the figure was five years previously.

Chairman: The previous figure was 195. I shall let you know the year.

Dr. Trip: To give a full picture it would be useful to mention the increase in the number of branches of commercial banks during the last ten years. We have the impression that the increase was considerable during a short period.

Chairman: The period is probably something like 8 or 9 years, and the figure includes the 100 branches opened by the Imperial Bank of India. These points were mentioned to Dr. Jeidels in the course of our discussion.

Dr. Trip: In the last sentence of this paragraph you say "considering the fact that the vast bulk of the people live not in towns but in villages, the absence of banking facilities to the people at large becomes all the more noticeable". It may, of course, be that banking facilities are lacking for these people, but do you not think it is practically a question more of the structure of the country than of the spread of banking facilities? I do not know your intention in putting in this sentence, but one could read in it a kind of criticism against commercial banks in this country. We do not say that there is no possibility of development of commercial banks in this country, but we want to stress the point that under present conditions the banking facilities offered by commercial banks are all that can be expected.

Chairman: As it is, we do not agree with that conclusion. That is why this paragraph has been put in.

Dr. Trip: I like to bring out whether it is a question of dissent or anything else.

Chairman: It is not correct to infer from the figures given that the banking resources of India are limited.

Dr. Trip: Then I draw the conclusion that your Committee is of opinion that, at the present state of development of the country, there can be more branches of commercial banks than there are.

Chairman: Yes.

Dr. Trip: The last sentence of paragraph 1 (*b*) reads:—

> "These facts together with the increase in Government borrowings by short term loans and treasury bills, at any rate during the last few years, indicate the existence of potential banking resources in India".

The question is whether these Government securities and treasury bills are taken by the banks or not. If they are taken by the banks out of their deposits, the factor is the same. You pointed out that the deposits have increased and then you say there were large Government borrowings. If

these Government borrowings are financed by banks out of the deposits, then it is the same factor.

Chairman: 1 (*b*) is based on the figures 1919 to 1928. There has been no increase in the aggregate deposits of banks. This is put in as showing that these figures alone cannot be made the basis of conclusion. What you say really comes in there, that is, large sums of money have been withdrawn through these short-term borrowings and treasury bills of Government.

Dr. Trip: That would imply that the public keep these Government treasury bills and securities. I was always under the impression that the largest part of the Government securities was held by the banks themselves. No deposits would then have been withdrawn by the public from the banks, in order to take these Government securities. We have no objection to the sentence as it is, but if our impression that these Government securities are financed largely by the banks is correct, then the banks get it out of their deposits and this is not a factor apart.

Mr. Lamond: That is so, as far as Government deposits are concerned. In the last few years Indian States have invested large sums in Government securities.

Dr. Trip: In para. 2 it is said: "It will be a long time before India is provided with a net-work of branches of joint stock banks". We quite agree with that statement, but I see some contradiction between that sentence and a preceding one where you gave the opinion that there should be more branches of joint stock banks in the country under present circumstances.

Chairman: Is there a contradiction? Our first proposition was that India does still want a large number of branch banks. Then we say, yes, that is what we want, but it will be a long time before that position can be secured.

Dr. Trip: You recognize that there is no practical possibility of these branches coming in a short time. I leave it to you to consider. There is no objection on our part, but if there is a contradiction it might be considered.

Mr. Manu Subedar: I differ from this recommendation and I hope it will not be adopted.

Chairman: Mr. Subedar thinks that it will not be a long time before branches of joint stock banks are established; he thinks it can be done quickly.

Dr. Trip: In para. 7 I should like the words "the question whether control should be imposed" substituted for the words "the question of the control to be imposed".

Chairman: I do not think there can be any objection to that.

Dr. Trip: As regards para. 12 we are of opinion that the words "perfection of banking" are too strong in the sentence "the granting of unsecured loans on properly appraised credit, instead of being regarded as perfection of banking, is actually regarded by the shareholders as making for lack of safety for the bank and evidence of unsound banking". I remember that Dr. Jeidels said that it was ideal banking. It is not a question of banking alone, but it refers to the situation of the borrowers also. We should prefer to delete the words "instead of being regarded as perfection of banking".

Chairman: As I understand the discussions in my Committee, this was considered to be ideal banking. If you wish to substitute the word 'ideal' for 'perfection', there might not be much objection. As far as I remember, I think Dr. Jeidels said that in Germany this was considered to be the perfection of banking. If that word 'perfection' is too strong, the word 'ideal' might be substituted.

Mr. Manu Subedar: Mr. McDougall's paper points out that in Scotland farmers get advances on personal security under similar conditions, and it points to the same conclusion as is embodied in this paper.

Chairman: Here the intention is to say that owing to certain peculiar reasons people do not want to give advances on personal credit without any security. I think Dr. Jeidels told us that the granting of advances on personal security was a common arrangement in Germany. He also mentioned that that was because there was more development of banking there than in India. What Mr. Subedar says is perfectly correct, Mr. McDougall in his paper on Co-operative finance has mentioned that point in regard to Scotch banks where advances are given only on personal security.

Dr. Trip: It is certainly done in a large number of countries. We have no objection to the word 'ideal' being substituted for 'perfection'. Among "the other reasons", is mentioned "the absence of touch and the lack of knowledge resulting therefrom between borrowers and lenders in the principal money market centres". This gives the impression that, if only the banks changed their custom, then the touch and the knowledge and the confidence would be established. We think that the principal action to be taken must come from the borrowers.

Chairman: That matter was very fully discussed in the Committee and members of the Committee were very definitely of opinion that it all arises from want of touch on the part of the bank.

Mr. Cassels: I think we have expressed the opinion that it is the duty of the borrower to give full information to the banker so that the banker may be in a position to give him the credit that he reasonably expects to get.

Chairman: If banks managed by Europeans do not get the information, surely it is not because the information is not there, but because they do not maintain the touch. There was a good deal of discussion on this point. Lala Harkishen Lal, himself a banker running one of the large Indian joint stock banks and a member of the Committee, said that he had never been faced with that difficulty because he was in close touch with his customers. The evidence was not conclusive on that point, some may have said that this was the position and others that it was not.

Mr. Cassels: The impression we gathered was that the Indian merchant and trader was very averse to give much information about his affairs and that he liked to keep it all to himself.

Mr. Manu Subedar: From where did you gather that information?

Mr. Cassels: From everybody in India.

Mr. Manu Subedar: From which class of informers?

Mr. Cassels: Merchants, bankers, and brokers. We may be wrong, but that is our impression.

Dr. Hyder: There are two important points: one is that there are very few people who speak English and even where they do, they cannot explain the details of an account.

Mr. Lamond: That is not true.

Sir Hugh Cocke: I think what came out was that there was very definite difference between purely Indian up-country banking and banking in large towns. There is no question that we were told in the course of evidence that Indian traders did not, as a rule, produce their balance sheets and accounts to bankers in Presidency towns. Mr. Pochkhanawala said that.

Chairman: That was not established. There are two items, the joint stock banks and individual parties. There can be no difficulty regarding published balance sheets. Then there are private parties and, as I understood, apparently it is the custom for European banks to send their clerks or shroffs. On the whole it is not a very satisfactory way of getting the information.

Mr. Lamond: That is not the custom.

Chairman: It may not be of the Imperial Bank. Lala Harkishen Lal definitely told us that he had found no difficulty and that he had a staff of referees and they got him all the information he wanted both in the case of joint stock banks and also in the case of private individuals. Naturally the word of a member of the Committee, himself running a very large Indian joint stock bank, went a good deal towards the shaping of our conclusion.

Mr. Cassels: That is only one experience.

Mr. Lamond: My own experience in up-country is that you get information much easier than you get in Presidency towns.

Chairman: If the non-production of accounts refers to Presidency towns, then it becomes a proposition which *prima facie* I find it difficult to believe, because it is in towns that people are more educated. If people in the country do not object to the production of accounts, why the people in the towns should object is beyond my comprehension and I fall back again on the want of touch. In these small up country stations a Bank Manager probably has much more touch with his clientele than he has in the big cities.

Mr. McDougall: Are you taking into account the simple country man as compared with the subtler city man?

Chairman: We are discussing the honest people. I don't think there is any variation in the subtlety with reference to variation in the distance of the locality from the Presidency towns.

Mr. Subedar: Am I to understand that a city man is likely to be much more dishonest and hence not a problem for the banker—is that the idea?

Mr. McDougall: Yes.

Mr. Subedar: From that point of view would you not say that the more subtle man in the West would offer an almost impossible problem for your bankers?

Mr. McDougall: The two cases are not analagous.

Mr. Ramdas Pantulu: It is a study of psychology.

Chairman: I think, Mr. Cassels, you ought to see our point. Again one goes back to that question of discrimination. At these Presidency towns, complaints have been made to us, that these European banks do not treat their Indian clientele in the same way as they treat their English clientele. That complaint has been made to us by Indians doing business and occupying very high positions. And on the whole I think this was a unanimous conclusion that this is the best way to put it right.

Dr. Trip: We must understand then that your opinion or the opinion of the Committee as a whole, is that if the banks change their custom then the touch and knowledge would be established?

Chairman: That is what we felt.

Dr. Trip: That is, of course, a point that is important for us to know.

Dr. Hyder: The words are between borrowers and lenders.

Dr. Trip: Therefore I asked some explanation of what is the meaning and now I gather that the meaning is that if only the banks would change customs . . .

Chairman: It does not wholly mean that; it means that if there was better touch, the banker could tell his client the information which he precisely wants.

Dr. Trip: You think it must be better co-operation—then we agree. Point 13 reads "We consider that banks in India generally should adopt a more progressive policy in the matter of granting clean advances on the personal credit of borrowers only . . ." I do not know whether that is a criticism or not. In one of our papers we stressed this point, but mentioned at the same time that we were not prepared at the moment to advise banks to change their policy because we were of opinion that the basic situation of the country as a whole does not make it possible for the banks to give more personal credit. They should try to do it as far as possible, but whether it is possible for the banks to give more personal credit without endangering their position, we doubt.

Sir Hugh Cocke: I think the wording here leaves that fairly open; more progressive policy as far as possible that is as far as circumstances permit.

Dr. Trip: As far as the position of their bank allows. If that is the meaning, we agree. If the banks are generally advised to give more clean credits then we hesitate to agree, because we doubt whether the position of the country allows that.

Chairman: We will take a note of that.

Mr. Ramdas Pantulu: We have some suggestions as to how commercial banks can finance agriculture.

Chairman: We have said nothing here about commercial banks financing agriculture because that will arise out of the papers we are discussing with Mr. McDougall and Dr. Friederich.

Mr. Currie: Please refer to point 17 of this paper. In your paper on the regulation of banks you make a remommendation for forming a 'Central Banking Association as an ideal for the indigenous banker to

aim at. As regards the portion reading "association of all such banks should be formed". It is not clear whether an association of all such bankers would include indigenous bankers who will not, at present, have the facilities of rediscount with the Reserve Bank. If that is not so, I feel that these indigenous bankers will be left without any association which will help them to modernise their methods. I can come back to that on the regulation of banking paper.

Dr. Trip: We see some contradiction between this recommendation and recommendation No. 9, under Regulation of Banking. Here it is recommended. "A general association including all the banks and all the bankers .....", and in the paper on Banking Regulations a Central Bankers Association is spoken of, as was proposed by us, including only those banks and bankers that have discount facilities with the Reserve Bank. But we can come back to that point when we discuss the paper on Banking Regulation.

Chairman: Very well. We will now take the paper on the Money Market.

MONEY MARKET IN INDIA.

Provisional conclusions arrived at by the Indian Central Banking Enquiry Committee.

1. The existing system of control of currency and credit in India which is in the hands of Government and the Imperial Bank of India respectively is defective. The Committee are of opinion that the control of currency and credit in India should be placed, as soon as possible, in the hands of a single authority which may be termed the Reserve Bank.

N.B.—This recommendation has been made on the understanding that the Reserve Bank of the right type would be created.

2. The establishment of a Reserve Bank would, by mobilisation of banking reserves in one hand, tend to reduce the charges borne by trade for the use of loanable money, other factors remaining the same.

3. The creation of the Reserve Bank may be expected to remove the existing differences in the rates of the indigenous money markets and the money markets of the Presidency towns, provided the rediscount and other facilities offered by it become effective and the number of banks and indigenous bankers enjoying those facilities are numerous enough for the requirements of the country.

4. It is clear that the borrowings of the Government of India in recent years have invited criticism in all quarters both in regard to the amount, the time and the terms and in regard to their effect on the general level of interest rates to the detriment of trade and industry and of the development of banking facilities. As it is not a part of the function of this Committee to enquire into this matter, we abstain from passing judgment in the matter. The Committee, however, hope, that when the Reserve Bank is established, Government would work in close co-operation with that bank in the matter of their borrowing operations (including rates for post office savings banks' deposits and cash certificates) and that in those circumstances there will be no room for adverse criticism of the kind referred to.

5. The present conception that the seasonal monetary stringency in India is inevitable and that this stringency must bring about a wide range of interest rates is erroneous and can be traced to the existing defective system of control of currency and credit. It will be one of the functions of the Reserve Bank, when it is created, to keep sufficient free gold reserves at the beginning of the busy season to supply the country with the currency needed during the crop-moving season, without the necessity of putting up the interest rate solely on this account. The present system of issue of emergency currency, under which no issue is possible except at varying rates of interest, has contributed to this unsatisfactory state of affairs. With the establishment of the Reserve Bank, the supply of additional currency against proper account will be automatic, and the question of penal rates of interest would not arise.

6. Owing to the absence of a well-developed and extensive bill market in India at present, it may not be possible for the Reserve Bank to make its influence felt without an additional provision enabling it to make loans and advances on the security of movable goods, wares and merchandise.

besides the warehouse* warrants or warehouse receipts representing the same. We recommend that such provision should be made. The Reserve Bank need not necessarily avail itself of this provision to a large extent, but the mere fact of its existence will give it a strong influence on the level of interest rates.

7. The Reserve Bank should not ordinarily compete with commercial banks for profit, but the Reserve Bank ought to be in a position to operate in the open market and compete with the commercial banks.

8. As it will take some time before a greater use of bills is made by the financial and business community of India, it is necessary to extend and improve, as far and as soon as possible, the system of giving credit against the security of movable goods, especially the products of the country. This will be facilitated by the development of warehouses, adapted to the requirements of the various parts of the country.

9. The following further measures to stimulate the use of bills ought to be considered:—

(*a*) Stamp duty on bills of exchange should be uniform for all parts of India.

(*b*) The published rate of the Reserve Bank should be the discount rate for genuine first class trade bills and the rate for demand loans against authorised securities should be somewhat higher.

(*c*) The use of vernaculars and the standardisation of that use should be promoted.

(*d*) Conditions for extension of the bill market will be created by raising the standard and improving the banking methods of the indigenous bankers, whose knowledge of local conditions and of the trade conditions which must form the basis of good bills, would enable that community to provide the commercial banks and the Reserve Bank with a gradually growing number of genuine trade bills.

10. The published rate of the Reserve Bank should be the minimum rate at which it is prepared to buy or rediscount first class trade bills and promissory notes of member banks and bankers, the Bank having full discretion in regard to the rates for its open market operations. To stimulate the use of bills the Reserve Bank should use its discretion to charge a higher rate for demand loans against authorised securities and it may find it useful to have a larger margin between these rates at the outset than will be necessary after the bill market has developed. Should the Reserve Bank in the first few years at any rate find it necessary to discount the paper of the public without bank endorsement, it should consider whether it should not charge a higher rate of discount to the public than that charged to member banks and bankers.

N.B.—'Trade Bills will include promissory notes arising out of *bona fide* or commercial trade transactions bearing two or more good signatures'.

*Wherever the word " warehouse " is used in this note, it includes "godown ".

11. Subject to any further discussions on the subject of indigenous bankers in connection with the memorandum on "Rural Finance", the following suggestions are accepted:—

(*a*) The Committee are not in favour of any compulsory measures in regard to bringing indigenous bankers within the Reserve Bank scheme.

(*b*) Such of the indigenous bankers as desire to be placed on the approved list of the Reserve Bank and become eligible for the recognised financial facilities from that institution up to limits prescribed by the latter, should undertake to specify the following conditions:—

(i) For rediscount facilities under section 17 (2) (*a*) of the Reserve Bank Bill of 1928 such indigenous bankers as are engaged in banking proper should be eligible to be placed on the approved list of the Reserve Bank in the same manner as joint stock banks.

(ii) They should conform to any standard regarding owned capital etc., prescribed for this purpose by the Reserve Bank.

(iii) They should agree to have proper books of accounts kept in the usual recognised manner and to have them audited annually by one of the recognised auditors. These books should also be available to the Reserve Bank for inspection and audit.

12. The introduction of rupee bills in connection with the import trade of India primarily depends on the feasibility of an alteration of the currency in which the import bills are drawn, and this will be dealt with under the head Financing of Foreign Trade. It has been urged before us that with an import business on private account of approximately Rs. 230 crores a year, the natural bill market for this purpose is India and not outside India. This is particularly justified by the fact that at the present time when most of the import bills are being drawn in sterling currency the rate of interest payable by the Indian importer (from the date of purchase by the London Bank of usance bill on him up to the date of maturity of the bill *plus* at least 18 days for remittance of the proceeds of the draft to London by a Demand Draft) is not based on the open market rate of discount in London but on the Bank of England rate, with a minimum of six per cent. all through the year.

13. The words "drawn and" in clause 17 (2) (*a*) of the Bill should be deleted with a view to widen the scope of the clause so as to include rupee import bills when they come into being. The clause as thus amended would read as under:—

> "the purchase, sale and rediscount of bills of exchange and promissory notes, payable in India and arising out of *bona fide* commercial or trade transactions, bearing two or more good signatures, one of which shall be that of a scheduled bank, and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace;"

14. In view of the fact that if indigenous bankers were included in the list of scheduled banks a greater proportion of the agricultural population would come within the purview of this clause than if the Reserve Bank dealt only with the existing scheduled banks and Provincial Co-operative Banks, it is not necessary to suggest any change in the time prescribed under clause 17 (2) (*b*) of the Bill for the total value of agricultural bills discounted or rediscounted.

15. As regards the period of 6 months for agricultural bills in clause 17 (2) (*b*), the period may be extended, if this is considered more suitable to meet the conditions of agriculture in India.

16. When any securities are issued with the guarantee of Government both for capital and interest, the question of including them in the securities specified in sub-clause (8) of clause 17 of the Bill of 1928, should be considered.

17. The Reserve Bank should be permitted to act as agent for any Indian State and any member bank in the same way as it is empowered to act as agent for the Central and Provincial Governments in clause 17 (11).

18. The words "and the Reserve Fund" should be inserted between "share capital" and "of the Bank" in the first proviso to sub-clause (14) of clause 17 of the Bill. The proviso as thus amended would read as under:—

> "Provided that the total amount of such borrowings shall not at any time exceed the amount of the share capital and the Reserve Fund of the Bank."

19. The Committee were evenly divided on the following proposal, *viz.*, that the following sub-clause be inserted between sub-clauses (15) and (16) of the clause 17 of the Bill:—

> 'Acting as agent in any place outside India for any member bank and selling foreign currency or paying out in foreign currency on their behalf, collecting bills in foreign countries, and accepting, against adequate securities in India, bills drawn by or on behalf of the member banks'.

N.B.—The Committee would like to discuss the matter with the Experts.

20. The words "drawn and" should be deleted from line 10 of clause 18 of the Bill, it being the necessary corollary to the amendment previously proposed in regard to sub-clause 2 (*a*) of clause 17. The clause as amended would read as under:—

> "When, in the opinion of the Board, it is necessary or expedient that action should be taken under this section in the interests of Indian trade or commerce, or for the purpose of enabling the Bank to perform any of its functions under this Act, the Bank, may, notwithstanding any limitation contained in sub-clauses (*a*) and (*b*) of clause (2) of section 17, purchase, sell or discount any bills of exchange or promissory notes payable in India and arising out of *bona fide* commercial or trade transactions, bearing two or more good signatures and maturing within ninety days from the date of such purchase or discount, exclusive of days of grade."

21. The cost of internal remittance in India is higher than in other countries and should be reduced as far as possible with a view to better utilization of the resources of the country, thereby lowering the rates of interest generally throughout the country. It is understood that in Canada it is done free by banks, if the places are near to one another, say within 300 or 400 miles, but a small charge is made if they are far apart; the charge for remittance in Java is only 1 guilder for remittance of 1,000 guilders or above, irrespective of the amount.

22. If transfers of money for member banks and bankers were made by the Reserve Bank free of cost as a national service, it would have a good influence on equalisation of interest rates throughout the country. It will perhaps not be possible in the beginning to abolish the charge but it might be possible at a later stage.

23. The Reserve Bank should have the direction of the Clearing Houses in India.

24. The establishment of investment trusts is a matter for private enterprise and may be looked upon as the possibility, as banking and investment habit grows in India. We do not recommend any special forms of State assistance to such institutions.

25. The Reserve Bank, when it is started, will at the outset have a very small number of branches and would make use of the branches of the Indian joint stock banks including the Imperial Bank at other places.

26. If any approved joint stock bank opens branches at a centre where there are no joint stock banks, the Reserve Bank may place, for the first five years, a deposit of Rs. 3 lakhs at 2 per cent. with every new branch so opened on such terms and conditions as it may consider necessary.

Dr. Trip: Our first remark regarding the recommendation which has been made on the understanding that a Reserve Bank of the 'right type' is created is that we have no objection to these words but there can, of course, be a very big difference between the opinions about the 'right type' of the Reserve Bank.

Chairman: Those words are put in for a reason. I gave a ruling that it was not for this Committee to consider that matter. The position has been changed by the Round Table Conference and one of the fundamental conclusions arrived at, is that there should be a Reserve Bank of sure and non-political basis. How these conditions are to be satisfied has therefore now passed into the hands of the constitution makers.

Dr. Trip: I understand the point quite well, Mr. Chairman, and I think we can refrain from making any special remarks on that and we can simply refer to the discussions that we have had, because from these discussions it can be shown what we think should be the right type of Reserve Bank. In para. 2 you have "The establishment of a Reserve Bank would, by mobilisation of banking reserves, etc." I think it would be better to read here "by mobilisation of banking and currency reserves".

Chairman: I deliberately left out the words "currency reserves" because currency is outside our purview. We are not a currency committee, we are a banking committee.

Dr. Trip: That is quite right, but I think that we also referred to currency where we stated as our opinion that the present system, under which credit giving and currency are in two hands, is not a good one.

Chairman: Very well, we will take a note of that.

Dr. Trip: In point 3 we think the word "remove" is too strong. We should prefer to read that as "diminish" because you can never expect that these differences will be removed to the full extent. We agree with point 4. Point 5 where it is stated that "it will be one of the functions of the Reserve Bank, when it is created, to keep sufficient free gold reserves . ." we should like to delete the word "gold" because it is not only the gold reserves, it is currency reserves as well. In any case the basis of these reserves ought to be gold or securities.

Chairman: Gold, of course, includes securities. This was really based on a paragraph in your memorandum. When we were discussing this we asked whether by gold you simply meant gold or gold securities and I think you said both. That is how the word gold came in there.

Dr. Trip: I thought about it because we are stating the conclusions of the Committee and I think the Act itself distinguishes between gold and gold securities. There may be some confusion with regard to that. Free reserves is quite sufficient in my opinion.

Chairman: We will take a note of that.

Dr. Trip: On page 2 there is only a question of drafting in the second line, from 'varying rates of interest . . .'. Is it not better to read 'stated rates of interest'? Varying rates of interest seems to us not quite correct.

Chairman: We will take a note of that.

Dr. Trip: In the second last line of the first paragraph for 'proper accounts' is it not better to say 'security' or something like that?

Chairman: The word is 'cover'.

Dr. Trip: We agree with paragraph 6. In para. 7 we should like to add the words "so as to make their policy effective".

Chairman: We will take a note of that.

Dr. Trip: With regard to page 3, point 10 we have three objections or remarks. We think, that with regard to the words which are placed at the bottom 'Trade bills will include promissory notes, etc', the words "and promissory notes" in the third line ought to be deleted. In the notes at the bottom "or commercial" ought to be "commercial or". In the last sentence of the paragraph the words "in the first few years at any rate" ought to be placed after the words "whether it should not" The question of the rupee bills we can discuss when the debate on "Financing of foreign trade comes so we can leave it here as it stands. Para. 13 we agree. In para. 14 time prescribed under clause 17 . . . " should be "limit" or something like that, but not "time".

Chairman: It is "limit".

Dr. Trip: No. 15—we agree. No. 16—We agree. In No. 17 we do not understand what is meant by "and any member bank".

Mr. Subedar: I suggested an amendment at the end of clause 17 and that amendment I don't find in place here, but to that amendment a compromise was suggested of this kind and when I did not agree to that compromise the Vice-Chairman said that the amendment as a whole should come in.

Mr. Lamond: That is para. 19, but 'any member bank' was not included in the recommendation.

Mr. Subedar: This other thing, however, is useful because it enables the bank to keep securities.

Chairman: We will look up the discussions and see how this came in. My own recollection is that this amendment was proposed by the Vice-Chairman out of Mr. Subedar's suggestion and whether it was accepted by everybody, or with dissent is what I am trying to find out. Then in regard to 19 Mr. Subedar said that that did not meet his view, therefore he stressed his amendment. It is here in 19 and the Committee were equally divided and it was decided that we should, before taking any decision, discuss the matter with the experts and then bring the matter before the Committee again. But I think 17 was probably accepted by a majority. Anyhow we can look that up later on.

Dr. Trip: To 18 we have no objection.

Chairman: We will first look up 17 and then we will discuss these two together.

Dr. Trip: No. 20—we have no objection. No. 21, we have no objection. I only want to make it clear that the charge for remittances in Java as mentioned here applies only to remittance by mail, as we call it, not to telegraphic transfers.

Chairman: That is, by post? That will certainly be put in.

Mr. Cassels: With reference to the Canadian system of transfer I think it is not quite as we discussed it. It says "that it is understood that in Canada it is done free by banks if the places are near to one another". That is not the point. Put it another way—"It is understood that in Canada remittances may be made free between the larger cities say 3 or 4 hundred miles apart, but a small commission is charged for remittances to small and remote places.

Chairman: We will undoubtedly make that correction.

Dr. Trip: No. 22—there is no objection. No. 23—no objection. No. 24—we have only to point out that it is, in our opinion, better to read "a" possibility, instead of "the" possibility. No. 25—no objection. No. 26—we do not think that if this is intended as a recommendation for the Reserve Bank it would be advisable for that bank to follow it. I think it would not be the proper thing for the Reserve Bank to do, in any way to make deposits with branches of other banks at a fixed low rate of interest and it would certainly not be good to make that compulsory.

Chairman: There is no compulsion. It says "may", and means that it is permissible. We thought that this would be a method of encouraging the development of branches in India. But still we do not want to fetter the discretion of the Reserve Bank, therefore we used the word "may". We do not say the Reserve Bank "should". We simply make this suggestion for the consideration of the Reserve Bank authorities.

Mr. Cassels.—This is made as a suggestion to the Reserve Bank, but we feel that we would not like to make any such suggestion to them.

Chairman: That is your point? Could you give us briefly your reasons?

Mr. Cassels: We thought that instead of this they might consider the advisability of using these branch banks as their agencies in these places.

Chairman: You would give that concession?

Mr. Cassels: We might do that. The question of whether they are going to make deposits is another matter entirely.

Chairman: What is your objection to this particular suggestion?

Dr. Trip: We do not think that it is advisable to stimulate the Reserve Bank in any way to give credit at low rates of interest apart from their general rates. They must be free to charge the rate of interest which is necessary for their policy and I think it is not sound to compel the Reserve Bank to give clean credits at abnormal rates of interest.

Mr. Sarker: Would not the same remarks apply to the Imperial Bank also?

Dr. Trip: There may be a special case with regard to the position of the Imperial Bank under the present legislation.

Mr. Manu Subedar: You approve of the provisions made by the Government of India with the Imperial Bank in the past.

Dr. Trip: I am not quite in agreement with the whole system, but this is a matter of the past.

Mr. Manu Subedar: I suppose you accept it as a fact, but you feel with regard to the future that those provisions are not advisable to make.

Dr. Trip: That is so.

Chairman: I should like to know what the objections of the Experts are for permitting the Reserve Bank to act as agent for any Indian State and *any member bank* in the same way as it is empowered to act as agent for the Central and Provincial Governments in clause 17 (11).

Dr. Trip: I may say it is not quite clear to us what the Reserve Bank in their function as agent could do which they cannot do under the present Reserve Bank Bill. So we cannot see what the real meaning of acting as an agent for a member bank, could be?

Chairman: The Reserve Bank could not act as agents of member banks under item (*e*) of 17 (11) of the Reserve Bank Bill, because no member has anything to do with the management of public debt; but what is your point with regard to other items?

Dr. Trip: I think the Reserve Bank is generally entitled to purchase and sell gold and silver under the Bill.

Chairman: And therefore you do not understand how they could also do this business on behalf of member banks.

Dr. Trip: That is our point.

Chairman: Mr. Subedar, I know you dissent on all these points, but may I ask whether you can help the Experts in these matters?

Mr. Manu Subedar: With regard to item (*d*) let us take the case of a bank in the Punjab which has no branch in Madras. The Reserve Bank can certainly assist that bank in the Punjab in regard to work under item (*d*). What we are trying is to put down in law, the maximum power to enable the Reserve Bank, at its own discretion, to perform such functions as fall under these items as they please. I should like to know what your specific objection to this is.

Dr. Trip: So that it comes to this—that the Reserve Bank can purchase and sell gold or silver on behalf of member banks; purchase, sell, transfer bills of exchange, securities or shares of a company and such other business as are enumerated in section 17 (11). Our opinion is that the Reserve Bank should not be asked to do this for the member banks.

Mr. Lamond: Is it your view that the Reserve Bank should act as correspondents for member banks?

Dr. Trip: No.

Mr. Manu Subedar: We are all quite clear that the Reserve Bank should not take any risky business. I do not see any harm in the Reserve Bank doing such business for the sake of its member banks whom it considers quite solvent and reliable. After all we are making only a permissive legislation and we do not bind the Reserve Bank to any particular line of action.

Dr. Trip: I have objection to the Reserve Bank undertaking this function on behalf of the member banks.

Mr. Manu Subedar: If, for any reason, the Reserve Bank thinks that it cannot do the business for a particular member bank, it can always say "no".

Dr. Trip: We cannot give discretion generally on all matters to the Reserve Bank. Although we do not find the same objections to the Reserve Bank doing this business in the matter of inland transactions as with regard to foreign exchange business, we do not like the Reserve Bank to undertake this work.

Mr. Manu Subedar: What is your objection with regard to foreign exchange?

Dr. Trip: In my opinion the Reserve Bank ought to keep its foreign exchange free in order to maintain the stability of the rupee and do business only to the extent that is required for that purpose.

Mr. Manu Subedar: Is it your view that the Reserve Bank should not act as bankers' bank and should not give facilities to the member banks even when they can do so.

Chairman: As it is, the Reserve Bank under section 17 (12) has got the power of purchasing and selling gold and silver, and the point is whether it should also exercise that power as agent of any member bank. Clause (13) as it stands now was decided upon by the joint select committee of the Legislature. The proceedings of the joint select committee are published and there is no harm in reading from it. The original bill was not so restrictive. Original clause (13) reads as under:— "The opening of an account and the acting as agent or correspondent of any other bank". The Joint Committee amended this into "We think the power of the Reserve Bank to open accounts and act as agents of other banks should be restricted to the central banks which are the principal currency authorities in their respective countries".

Mr. Manu Subedar: My point is that supposing a member placed sufficient securities at the disposal of the Reserve Bank and asked the latter to do some special foreign exchange business, I ask why should not the Reserve Bank be given the permissive powers to do so if it cared.

Chairman: As it originally stood the power was there, but it has been restricted by substituting for 'any other bank' 'a member bank.' Now my difficulty is, if we wanted simply to amend (11), (11) and (13) will immediately get into conflict and as regards (11) itself the purchase of gold and silver. . . . .

Mr. Manu Subedar: (11) refers to certain categories of persons, namely, the Governor General, the local Government, the States, and member banks. (13) refers to their acting as agents for foreign institutions.

Chairman: It is not merely foreign institutions. It says 'the principal currency authority of a gold standard country.' (*e*) would not obviously apply to member banks. As regards (*a*), this power is required in view of the power given in clause (12) which of course refers only to coin and bullion. It does not refer to silver. Therefore the position is that the Reserve Bank should be able to act on behalf of a member bank in regard to the purchase and sale of silver.

Dr. Trip: I cannot see that there is any reason for doing that because, as far as silver has to be bought or sold in this country, no member bank would have any difficulty.

Mr. Manu Subedar: Take the Punjab Bank. It would much rather do its operations through the Reserve Bank than through any commercial bank. Is there any inherent objection to it?

Dr. Trip: As I see the position in this country, there are bullion brokers in big places. So I cannot see why the member bank could not approach one of them and ask the Reserve Bank to pay on account.

Mr. Manu Subedar: There are stock-brokers in Bombay, yet certain number of bank clientele purchase and sell their securities always through their banks. In another section you have yourself recommended that it is better for the banker to take up this function of advising his clients regarding investments. It is likely that a broker might mislead. If the Reserve Bank is employed, right and proper judgment would be brought to bear on the purchase.

Dr. Trip: I can only say that these activities are no part of the work of a Reserve Bank; I see here clause (11) which makes an exception on behalf of public authorities, and that is done in all countries but, apart from this, these things come within the purview of commercial banks. I do not think it would be wise to give the Reserve Bank the power to act as a commercial bank.

Chairman: Could you explain to us what is the precise objection to giving the Reserve Bank the power to buy and sell silver for its member banks? Purchase and sale of gold is provided for in (12).

Dr. Trip: In regard to acting as an agent for member banks, every one of them can go to the Reserve Bank and ask it to sell for them or buy for them gold or gold coin, but what Mr. Manu Subedar wants is that the Reserve Bank should buy, let us say, gold, on behalf of a member bank in London or New York which, of course, goes farther.

Chairman: What is your objection to it?

Dr. Trip: If you will ask the Reserve Bank to act as an agent on behalf of member banks outside the country, the danger will arise, in my opinion, of joint stock banks trying to build up foreign exchange business through the mediary of the Reserve Bank. The Reserve Bank will not have the freedom afterwards to stop that work on behalf of such banks, and the foreign reserves of the Reserve Bank will not any longer be as free as I want them for its principal task of stabilising the position of the rupee.

Chairman: Your point is that if it were allowed to do that work—foreign exchange work on behalf of its member banks—it must pay out foreign currency from its own reserves, and that would interfere with the main function of these reserves which is to help the Reserve Bank in maintaining the currency. I can understand that objection.

Mr. Manu Subedar: You said if it allows member banks to build up foreign exchange business it will not be in a position to stop it. To stop it, under what circumstances? When it is itself short of funds, is it not so?

Dr. Trip: If I have to do on your behalf acceptance business that ties up a part of my foreign exchange, and I want to keep it absolutely free for my own duty.

Mr. Manu Subedar: The foreign exchange of the Reserve Bank should never remain absolutely free because I take it that without the intervention of the exchange bank which has been suggested already, the Reserve Bank will be the authority to deal with the remittance transactions of the Government of India. It will also be the currency authority which

will prevent the value of the rupee from going above or below the gold point. With these two functions, and in order materially to control the market, the Reserve Bank would have to be in the market for foreign exchange whenever they felt that exchange was weak and wanted to support it. That being so their funds would be utilised; their foreign reserves and foreign currencies would be utilised for this purpose by the exchange banks, who would buy the remittance from them.

Dr. Trip: That is a possibility, but the Reserve Bank is not compelled to sell to exchange banks.

Mr. Manu Subedar: The trade of a country at a particular moment has a certain volume. This is handled by the foreign exchange banks in this country. Suppose an Indian joint stock wanted to handle a portion, it will not be a new obligation, it will be the same obligation. It will be simple. Bank A doing it instead of bank B. I take it that after the inter-bank sale has taken place the balance is cleared through the Reserve Bank, and that balance is cleared by the Reserve Bank by means of its reserves abroad. I cannot therefore see how there will be a larger damand on the foreign resources.

Dr. Trip: According to your proposal the Reserve Bank would be free to act as an agent on behalf of Indian joint stock banks, and it will then have to enter the market even before the clearing came up. It will have to do practically the business that foreign exchange banks do at present. As you rightly said, the balancing of exchange transactions will go through the Reserve Bank, but the result of your proposal will be that, even before that balancing came up, the Reserve Bank would have to transact foreign exchange business on behalf of member banks.

Mr. Manu Subedar: Under clause 19 it can accept bills against adequate security on behalf of member banks. That involves no call whatsoever on its reserves?

Dr. Trip: The Reserve Bank will have to pay out the foreign exchange out of its own stock of foreign exchange, and it will be repaid, as I understand this clause, in rupees in this country.

Mr. Manu Subedar: That is not in my mind. Suppose there is an importer in Punjab who wants to import. He goes to his bank in the Punjab and the bank says, 'I will make arrangements for your bill being accepted.' The Reserve Bank accepts it on adequate security being lodged by the Punjab Bank. The bill after acceptance may be discounted at the other end or it may be held by the Punjab Bank itself without being discounted.

Dr. Trip: It is import. Is it a rupee or a sterling bill?

Mr. Manu Subedar: Let us take the present practice—it is a sterling bill.

Dr. Trip: The Reserve Bank will have to pay out of its own stock of sterling. Do you think that it will be advisable, for varying quantities of Reserve Bank acceptances, to circulate in the London Money Market? It will create a very bad impression. It is dangerous. It will damage the name of the Reserve Bank. This business belongs to commercial banks.

Mr. Manu Subedar: Suppose they are small bills.

Dr. Trip: That would be even worse for the good name of the Reserve Bank.

Mr. Manu Subedar: Foreign exchange banks in this country have a very strong position and it will not be possible for Indians to get any share in it. In order that a small beginning might be made we thought it would be a desirable and proper method for Indian joint stock banks to go into foreign centres on behalf of such clients of theirs who wish to deal through them rather than through foreign exchange banks. As this is going to be a small beginning, a new move, there is no apprehension that the total amount of business would run into such a volume that the name of the Reserve Bank would be damaged. When the amount becomes large enough to justify joint stock banks opening branches of their own, they would do so. The Reserve Bank would only have discretion and it will not allow the amount to run up to such an extent as will spoil its name. Is there anything wrong in their accepting one bill of £1,000 in the London Money Market?

Dr. Trip: As far as I know the central banking practice, it would certainly make a very bad impression even if you have one bill discounted in the London Money Market with the acceptance of the Reserve Bank. I do not know of any Reserve Bank which does acceptance business. We are not allowed to do it. I see your point. But I think it certainly is not the proper way in which you can achieve your aim. If joint stock banks want to do foreign business it is not necessary for them to start branches in the central money markets. I am absolutely convinced that they can get the co-operation of first class banks established in those markets. All that the Reserve Bank can do in my opinion is to give such foreign bank information about the position and standing of Indian joint stock banks.

Chairman: You object to both the proposals contained in 17 and 19 for the reasons which you have given? That being so, we must stop there. We shall discuss the matter among ourselves.

Dr. Trip: No. 2 of the Provisional conclusions regarding the Imperial Bank of India* says that the restriction imposed by the present Act on the Imperial Bank's foreign exchange business or any other class of business must be withdrawn. It is not clear to us whether it is meant that this withdrawal should take place after the Reserve Bank has been started or before hand.

Chairman: After the Reserve Bank is started. We will make it clear.

Dr. Trip: Are we not concerned with the points mentioned in (3)? Is it a legal question?

Chairman: These are the two points which arose out of our discussions. There may be other matters arising out of the Imperial Bank Act which we may have to consider later on; there may not be, but we do not know. Our procedure has been to come to provisional conclusions on matters which we discussed with you or which arose out of your memoranda, and the first two paragraphs refer to these matters.

Dr. Trip: We have to reserve our opinion on these other matters.

Chairman: You express no opinion in regard to para. 3, that is the point. We shall proceed to Regulation of Banking.

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REGULATION OF BANKING.

PROVISIONAL CONCLUSIONS ARRIVED AT BY THE INDAN CENTRAL BANKING ENQUIRY COMMITTEE.

Need for legislation.

The Committee are not in favour of elaborate banking regulations dealing with matters which had best be left to the discretion and sense of responsibility of the directorate and the management; such restriction is at times likely to do more harm than good and hamper the activities of banks. At the same time the Committee are of opinion that the existing provisions in the Indian Companies Act governing banking companies are inadequate. Several important matters, having a vital bearing on questions such as the stability of banks, the safety of shareholders and depositors and the proper management of banks and the development of banking, generally remain to be provided for. Some of these matters require amplification of the existing statutory provisions; some can be met, in the case of banks to be established in future, by suitable provisions in the Memorandum and Articles of Association of the different banking companies according to their respective requirements, subject to the approval of the Registrar of joint stock companies; some might be left to the control of Directors and the supervision of auditors, while some would lie within the purview of the Reserve Bank when it is established.

Statutory Provisions.

2. There are two ways in which the existing regulations can be amplified:

(1) by the promulgation of a special Bank Act comprising the necessary provisions governing all banking institutions,

(2) by the amendment and amplification of the Indian Companies Act so as to provide for the additional matters which require to be dealt with by legislation.

3. The majority of the Committee prefer the first alternative. The foreign banks operating in India should also be brought within the purview of the Act.

4. The additional matters which should be provided for by legislation are as under:—

(1) The Act should lay down (*a*) that adequate provisions regarding the subjects mentioned in paragraph 6 should be incorporated in the Memorandum and Articles of Association of a company which wants to make use of the word "bank" or the words "savings bank", "banking company", "banking house", "banking association" or "banking institution", or any word or words of import equivalent thereto in connection with its operations; and that (*b*) an existing concern using any such title should arrange to conform to such provisions within five years after the Banking Act is passed, failing which registration in its existing name would be cancelled.

N.B.—Penalty for unauthorised use of the title to be considered by the Committee later.

(2) These Articles should prohibit activities other than banking.

(3) The Act should give powers to the Registrar of joint stock companies to refuse the registration of banks, the Articles of Association of which are not in accordance with the provisions of the law.

(4) There should be a separate index of the names of members of a banking company for ready reference and inspection by shareholders, as is provided for by section 96 of the (English) Companies Act, 1929.

(5) The authorised capital of a bank should not be more than double the subscribed capital and the paid-up capital should not be less than 50 per cent. of the subscribed capital before registration. It should not commence business until its paid-up capital is Rs. one lakh.

(6) Auditors and Officers of a bank should be rendered liable for omission to state material facts in their reports and in the presentation of the accounts of the bank.

(7) Any payment to any auditor on any account in addition to the amount of remuneration fixed at a general meeting of shareholders shall be invalid, unless fixed or confirmed by the shareholders.

(8) Provision should be made for a temporary moratorium, on the recommendation of the Reserve Bank, with a view to preventing compulsory liquidation of a bank which is in difficulties.

(9) Provision should be made for the appointment by the creditors of a Committee of Inspection on the lines of Section 240 of the English Companies Act, 1929, in the case of liquidation of a bank.

(10) In the case of compulsory liquidation, there should be provisions on the lines of the English Companies Act (Sections 237—240) for safeguarding the interests of creditors.

N.B.—The precise provisions will be settled later.

(11) Provision prescribing form of Balance Sheet and Profit and Loss Account.

N.B.—The question whether the Form prescribed in the Indian Companies Act is adequate will be considered later.

(12) Provision that the annual general meeting shall be held not later than three months after the close of the year.

(13) In case of voluntary liquidation of a bank the appointment of a liquidator shall be made by or with the approval of the Board of Directors of the Reserve Bank.

(14) Provision requiring institutions doing banking business in India to keep a separate register of shares owned by non-nationals.

(15) It is recommended that any bank, Indian or non-Indian, wishing to do banking business in India should be required to take out a license from the Reserve Bank, when it is established. This is partly necessary in the interests of depositors and partly for giving the Reserve Bank some control over the banks operating in the country.

(16) It has been urged before the Committee that the opening of new branches by the exchange banks and the Imperial Bank of India affect the branch banking activities of the other Indian joint stock banks. The Committee recommend that in order to ensure a well ordered development and extension of joint stock banking in the country any bank desiring to open a new branch in India should be required to obtain the approval of some authority in India, preferably the Resereve Bank, before doing so.

N.B.—Licenses should be freely granted to the already established banks, and it would be the business of the licensing authority to see that the provisions of the law, and any other conditions specified in the licenses, are complied with.

(17) In addition to periodic statements from exchange banks along with other member banks provided for in the Reserve Bank Bill, annual statements showing their assets and liabilities relating to their Indian business, as prescribed by the Reserve Bank from time to time, should be furnished by the exchange banks to the Reserve Bank as a condition of the grant of licenses. Such statements will be exhibited by the exchange banks along with the balance sheet at all their offices.

(18) The returns to be submitted by the banks to the Reserve Bank shall be audited in such manner as may be prescribed by the Reserve Bank.

5. Proposals relative to the following subjects ought to be left to the control of the Board of Directors and the supervision of Auditors. Attempts to regulate them by legal provisions would tend to take the responsibility off the shoulders of directors and auditors and shareholders.

(1) Provision for adequate reserve.

N. B.—Three members have asked that the matter be further discussed or that a limit be prescribed to the rate of dividend until the reserves amounted to the whole or a fixed proportion of the subscribed capital.

(2) Loans to a limited company, a director of which is also a director of the bank or to a limited company in which any of the bank's directors are members of the managing agents' firm.

(3) Valuation of investments and provision for bad and doubtful debts.

N.B.—The question regarding the manner in which the valuation should be shown in the Balance Sheet stands open for consideration.

6. The following proposals ought to be met by the Articles of Association:—

(1) Prohibition to advance any loan on the security of the Bank's own shares.

(2) Limitation of loans granted to managers, staff and Directors.

(3) Proper regulation of the allocation of profits.

(4) Provision in order to enable shareholders to get the profit and loss account together with the balance sheet and provision that the report and the balance sheet should be posted to shareholders not later than 10 days before the day of the meeting.

(5) Voting power of managers or other employees of the bank, (the Committee are of opinion that the present practice in this matter should continue except that such persons will not be allowed to hold proxies for the purpose of voting on behalf of any shareholders), period of validity of a proxy and the voting power of individual shareholders.

(6) Validity of votes tendered at the polls and time within which objections to the legality of a vote should be raised.

(7) Restriction of the power of directors to refuse to register shares.

7. The Registrar should scrutinise the Memorandum and Articles of Association and, if they do not contain adequate safeguards in regard to these matters to his satisfaction, he should refuse registration until they have been properly amended.

Matters coming within the purview of the Reserve Bank.

8. Questions, such as preparation of monthly statements of liabilities and assets and the form of these statements, and amalgamation and reconstruction of banks in difficulties, may be dealt with by the Reserve Bank, when it is started.

Definition of the term 'Bank' or 'Banker'.

9. The definition of the term 'Bank', or 'Banker', has been regarded as well nigh impossible in other countries. It is much more so in India, where a definition cannot be drawn up without excluding many firms of indigenous bankers and individuals, who do a considerable portion of the financing of the country.

With a view to encouraging indigenous bankers to adopt modern methods, it has been suggested that the term 'Member of the (Central) Bankers' Association' be invented and that every bank or indigenous banker whose bills the Reserve Bank decides to accept should have the right to use this designation provided they undertake to abide by the rules of the Association. The Committee approve of this suggestion.

Special Audit and Inspection.

10. The Committee do not consider that any special form of Government inspection would serve a useful purpose or be any greater safeguard than the present system of auditing by authorised accountants. The provisions of the Bank Act making auditors of a bank liable for omission to state material facts in their reports and in the presentation of the accounts of a bank, as suggested above, is all that is required.

11. The Committee have not come to any definite conclusion in regard to the proposals included in the attached list B. The Committee understand that the Experts are not in favour of these items being included in the lists of proposals classified under four different groups in paragraphs 4, 5, 6 and 8, but that they are willing to leave it to the Committee to come to any decision in the matter in view of the fact that the latter are more cognisant of local conditions than they are.

STATEMENT A.

1. Protection should be given to banks against frauds in connection with goods kept in the custody of customers on trust receipts by making such frauds a criminal offence.

N. B.—General agreement not arrived at. The matter will be discussed again.

2. Directors and Auditors should be made liable for negligence in the discharge of their duties.

3. Compulsory liquidation should be under the supervision of the district court.

4. The Governor General in Council should have the power to order, on the recommendation of the Reserve Bank, transfer of winding up proceedings from one province to another.

5. The question of costs of liquidation should be dealt with by the courts and delinquent directors or officers of the bank should be prosecuted at public expense.

STATEMENT B.

(1) Provision that the total clean advances made by a Bank, or its advances against immovable property, should not exceed the paid-up capital.

(2) Limitation of advances to an individual without security.

(3) Limitation of the amount of advances to any single individual or to any single concern.

(4) Restrictions on borrowing and prohibition of mortgage of uncalled capital.

(5) Restrictions on investment in immovable property.

(6) Restrictions on investment in shares and debentures of joint stock companies.

(7) Restrictions as to short-term and long-term business.

(8) Prohibition of the Managing Agency System.

(9) Restriction of the business of co-operative banks to co-operative banking.

(10) Reservation of the field of agricultural finance for the co-operative banks.

(11) Prohibition of a joint stock bank or its branches in towns having a population of less than 25,000.

(12) Provision for licensing all persons (which term includes firms and banks) doing banking business, excepting joint stock banks incorporated in India and the co-operative credit societies.

(13) (*a*) Selection of only firms of auditors of long standing experience for licenses or certificates to act as auditors of banks.

(*b*) Appointment of two auditors, one by the Directors and the other by the shareholders.

The Experts have expressed the view that if it is felt that any special form of Government inspection would serve a useful purpose or be any greater safeguard than the present system of auditing by authorised accountants and that some of the existing firms of accountants are not sufficiently reliable to be entrusted with the work of auditing the accounts of a bank, some form of regulation based on the Canadian system, which provides for the selection of auditors by the Minister of Finance from a list of persons prepared in accordance with the provisions of the law, be adopted, *vide* Section 55 of the Bank Act of Canada. The Experts feel, however, that the strengthening of the Companies Act with regard to auditing so that the auditors must make a report and be responsible for its accuracy is all that is required.

(14) Provision enabling auditors to publish instances of window-dressing in a schedule attached to the balance sheet.

(15) Provision requiring auditors to bring to notice all irregularities discovered by them.

(16) Provision to give right to auditors to make any report they like and to attend and speak at all meetings of the Bank.

(17) Provision to authorise auditors to pay surprise visits for the examination of bank accounts.

(18) Prohibition to make advances to the bank's auditors either jointly with other persons or severally at short or long-term with or without security.

(19) Prohibiting directors of a bank to vote as shareholders or to solicit proxies for the appointment or removal of auditors.

(20) Provision requiring that returns of up-country branches of banks should be certified by qualified local auditors.

(21) Amendment of the form of auditors' certificate.

(22) Vesting of the power of investigation in the Controller of Banks, whose appointment has been suggested.

(23) Authorising shareholders of a bank, holding 1/10th (and not 1/5th as required under section 138 of the Indian Companies Act) of the shares issued by a bank, to apply to the local Government for the investigation of its affairs by inspectors.

(24) Deletion of the clause requiring applicants for inspection to give security of payment of the cost of the enquiry, or in the alternative, reduction of the amount of security required.

(25) Authorising the Controller of Banks to prosecute any person connected with the bank, who may be criminally liable.

(26) Provision that the expenses of enquiry shall be borne by the state if it results in prosecution, and in other cases by the Bank, unless the Controller directs otherwise.

(27) Compelling a bank and its officers to put its affairs on a satisfactory basis, should it be found necessary as a result of enquiry.

(28) Prohibition against the director of a bank acting as a director of another bank.

(29) Provision requiring that a director of a bank should not be related to the managing director or the manager of the bank.

(30) Disqualifications for the office of director of a bank.

(31) Prohibition against the director of a bank acting as its liquidator.

(32) Removal of a director from office.

(33) Retirement of directors.

(34) Prohibition against a director resigning before the statutory meeting, and provision requiring a director's presence at the meeting to give such explanation as may be required of him.

(35) Voting power of directors for the appointment, removal or reappointment of chairman, directors, or auditors of a bank.

(36) Restriction on the Chairman of the Board of Directors acting in that capacity for more than three years without re-election by the Company at a general meeting.

(37) Provision requiring directors to submit to the shareholders such statements of affairs as they may require.

(38) Provision requiring inclusion of certain particulars in the Directors' Report.

(39) Provision requiring that every institution doing banking business in India should have a majority of Indian directors.

(40) Provision requiring a minimum standard of qualifications for the manager of a bank.

(41) Provision requiring that the name of the manager should be shown conspicuously.

(42) Provision requiring that the term of the managing director or a director should not exceed a stated period without re-appointment by the shareholders at a general meeting.

(43) Prohibition to pay to managers or managing directors certain percentages of annual profits as part of their remuneration.

(44) Power to depositors to elect their own representatives on the board of directors.

(45) Provision enabling a shareholder to obtain inspection of minutes of proceedings of general meetings or to get copies of extracts.

(46) Provision compelling the management of the bank to send copies of minutes of meetings to its shareholders.

(47) Provision confining the Bankers' lien to partly paid shares only.

(48) Proposal to create a kind of bankers mortgages with certain concessions.

(49) Provision requiring a banking company to file, with the Registrar of each Province where it has branches, particulars of its mortgages and charges, etc.

(50) Prohibiting share hawking.

(51) Prohibition of blank transfers of shares.

(52) Prescribing a time limit within which transfers should be registered.

(53) Provision requiring that a bank should furnish copies of its Memorandum and Articles of Association to any member of the public on payment of a prescribed fee.

(54) Provision requiring that copies of contracts, disclosed in the prospectus of a banking company, should be filed with the Registrar.

(55) Names of the different joint stock companies in which the directors of a bank hold similar offices should be clearly indicated in the register of directors.

(56) There should be a provision enabling shareholders not only to inspect the register of members, but also to take copies or extracts. This would involve amendment of Section 36 of the Indian Companies Act.

(57) Creation of an office of Registrar of Banks.

(58) Prohibiting the opening of a new branch by any banking institution in India without the permission of the Central Banking Authority and provision requiring information regarding closing of branches.

(59) Provision requiring the permission of the Central Banking Authority for opening savings banks.

(60) Prohibition of amalgamation of banking institutions without the permission of the Central Banking Institution.

(61) Prohibition to acquire controlling interest in banking institutions, without the disclosure of such information to the Central Banking Authority.

(62) Prohibition against any party, firm, institution, or company operating through a foreign country acquiring controlling interest in any institution doing banking business in this country.

The Experts' view is that while the shareholders of the banks might take necessary steps to prevent their interests passing into foreign hands there is no need for any statutory provision.

(63) Special safeguards for protecting the interests of depositors and other Indian creditors in the event of winding up of non-Indian banks.

The Experts' view is that although on principle it would not be unreasonable it would not be wise to provide such safeguards for, if every country where a foreign bank is working did the same, the bank would have to split up its assets against its liabilities in several countries and the position of the whole institution and perhaps of all the creditors would be weakened.

(64) Proposal that depositors of small amounts may be given protection and preference by law.

(65) Provision to the effect that a certificate should be obtained from the Advocate General or from the Registrar of Companies before anybody takes criminal proceedings against a banking company.

(66) Amendment of Clause VI of Section 162 of the Indian Companies Act, under which an application may be filed for the winding up of a company "if the court is of opinion that it is just and equitable that the Company should be wound up", so as to exclude banks and other credit institutions from the operation of the section.

(67) With a view to preventing bear raids every seller of a bank's shares should be required to give the actual number of shares at the time he sells them.

(68) Whether form F of the Balance Sheet prescribed by the Indian Companies Act should not be amended so as not to require banks to show separately debts in respect of which the bank is fully secured and those for which it holds no security other than the debtor's personal security, as such a provision is believed to affect a bank's policy in regard to unsecured advances.

Mr. Currie: Para. 1. No comments.

Para. 2. Regarding statutory provisions. No comments.

Para. 3. No comments.

Para. 4(1) This does not include indigenous bankers?

Chairman: In regard to indigenous bankers we have another provision. We have said in the paper on 'Commercial Banking' that the position of the indigenous banker should be cleared up.

Mr. Currie: We agree to that.

(3) and (4) We agree to.

(5) We had a lot of discussion on what was the legal minimum with which a bank might start. What would happen to indigenous bankers who will turn into a joint stock bank?

Chairman: This is our final conclusion.

Mr. Currie: In that case we have no objection.

6, 7, 8, 9, 10, 11 and 12. We agree.

13. We do not quite know what was in your mind. It is a matter for the shareholders.

Chairman: That provision was made for this reason. The shareholders may decide to go into voluntary liquidation and this may be a matter for the shareholders of the bank, but even so we thought that, in the interests of the depositors, it was necessary that the liquidator should be appointed by or with the approval of the Board of Directors of the Reserve Bank.

Dr. Trip: We have no objection on principle. In my country, for instance, the way in which liquidation shall take place is provided for in the articles of association. But I do not know what the position is with regard to this point in this country.

Chairman: This was put in here to afford greater protection to depositors.

Mr. Currie: There is no objection on principle.

Dr. Trip: If you think it advisable.

Chairman: That was the view of those members of the Committee who had considerable experience of matters of that sort. In fact there was no dissent.

Mr. Currie: No. 14. That I do not think is going to be a very easy thing to keep.

Chairman: I was not present. I saw from the notes that the matter was discussed with you and you ended by expressing the opinion that if the Committee thought it necessary you had no objection.

Mr. Currie: We have no objection on principle, but there are practical difficulties.

Chairman: Would you kindly mention them so that we may consider the matter?

Mr. Currie: The difficulty is in knowing the nationality of the shareholders.

Mr. Manu Subedar: There may be a vacant space provided in the transfer form to fill in the nationality.

Sir Hugh Cocke: Just as was done during the war, the declaration of a British subject.

Mr. Currie: That entails a great deal more work on the bank and surely it is a question whether it is worth while.

Mr. Lamond: It is merely recorded in the register. There is no restriction at all.

Dr. Trip: You have no bearer shares?

Mr. Lamond: There is no restriction in regard to dealing in such shares.

Dr. Trip: If you have bearer shares you cannot do it.

Mr. Manu Subedar: It may be possible to issue bearer shares and say that the shares should not be transferred to non-nationals.

Dr. Trip: I do not think that this could be done. Would you prefer to discuss this point 15 when "foreign trade" comes up for discussion?

Chairman: We will discuss it in connection with foreign trade. That refers to items 15, 16, 17 and 18.

Mr. Currie: Section 6 (3). That seems to be covered by the articles of association providing for proper regulation, proper allocation of profits.

Chairman: That is so. These 3 members want statutory provision.

Mr. Currie: We are of the opinion that it is better left for the articles of association.

Chairman: We will take a note of that.

Chairman: Proposal 5 (3): "Valuation of investments and provision for bad and doubtful debts." Here the question regarding the manner in which the valuation should be shown stands open for further consideration.

Sir Hugh Cocke: As regards this, could we ask whether the experts have any views as to the advisability of this being included in a statutory provision for valuation of investments?

Dr. Trip: This is shown here as a matter to be left to the control of the Board of Directors.

Chairman: This, as a matter of fact, arose out of a point raised by Sir Hugh Cocke himself, and it was considered that the valuation of investments should be made at the market rate or at cost price whichever may be less. At least the allegation made to us was that this arrangement had been utilised by bank managers in certain cases to manipulate profits, and therefore it was pointed out that this matter required specific

provision. The balance sheet itself would indicate how it is to be valued, so that the shareholders, when they got the balance sheet, would be able to know whether, if I may use the word, any window-dressing of that particular type has taken place or not.

Sir Hugh Cocke: It was one of the main points raised, namely, whether in buying and selling investments profit differences had been used. Banks hold a lot of Government stock, some of them buy and sell from day to day and at the end of the period, they may value their investments at, say, 3 points below the market price or something of that sort. They may thus have a good balance to be transferred to the profit and loss account. This policy has been attacked in some quarters.

Mr. Cassels: It would be all right if the valuation was made on a proper basis and as long as they do not take it on appreciation of security.

Dr. Trip: In my country the method of valuation is generally mentioned in the report of the management.

Chairman: Is that an obligatory duty on the management?

Dr. Trip: No.

Chairman: There is the difficulty. If the management do not mention it in their report, nobody can demand it. Therefore the suggestion was made that in the interest of the shareholders and also of the depositors, something ought to be done. How is it to be tackled? We have left it for further consideration. We have your views, and it would be very useful to us when we come to a final decision in the matter. It is possible that the problem has not arisen in an intense form in other countries, but here I believe, owing to the fluctuation in the price of Government securities in recent years, at least the allegation is that some bad cases have cropped up.

Dr. Trip: With regard to that, I must say that it would probably be agreed that it will be advisable to make some provision. The difficulty is whether you can cover the whole field.

Chairman: We realize the practical difficulty. That is the reason why we did not come to any conclusion. We knew we would have to think about the matter more carefully.

Mr. Cassels: The usual and ordinary custom, that I know of, in the West is that investments are valued according to their cost price and so stated in the statement of account.

Mr. Manu Subedar: All these are different here. Suppose the issue price of a bond is 96 and it has cost only Rs. 96, but is sold in the market at 102.

Mr. Cassels: The realisable value is taken into consideration for the short-term security.

Mr. Manu Subedar: Would you prefer the value which it would realise in the event of its being sold at or about the date of its maturity?

Dr. Trip: 100 per cent. is the limit up to which we go.

Mr. Manu Subedar: I quite agree that there is less difficulty when there is an appreciation, but what is to be done when there is a fall?

Mr. Cassels: Then you put it in at market price. If there is an appreciation, you put it at cost price.

Chairman: There is difficulty in appreciation also. There was a case before us.

Mr. Manu Subedar: It was an appreciation in the permanent holding of 3½ per cent. where there is no maturity date.

Sir Hugh Cocke: The real point has been this; as everybody knows, Government securities steadily appreciated for three or four years. If I buy some security at 80 which, at the time of my nexte balance sheet, is standing at 83, I value it at 80. At the time of my next balance sheet the value is 87 and a year later 95, but I still value it at 80. If, however, I sell at 88-8 and buy it again at 85, I made 8-8 when I sold which I can take to my profit and loss account; the new investment stands in my books at 85, which it can continue to do, so long as the market price is not below 85.

Mr. Cassels: It is a new transaction.

Sir Hugh Cocke: But there is nothing wrong.

Dr. Friederich: In my country with regard to valuations, our Companies' Act makes special provisions. Investments will have to be valued at the lowest price. You have on the one side purchase price and on the other, sale price or market price. In case of a sale, where the purchase price is lower at the date on which you make up your balance sheet, you have to put in the purchase price, and where the market price is lower, you have to put in the market price. With regard to premises, land, etc., it is prescribed that a certain percentage of depreciation has to be made. With regard to bad and doubtful debts, our Companies Act prescribes that reservations have to be made for these in accordance with demand.

Chairman: But are those reservations and the corresponding bad and doubtful debts shown separately in the balance sheet?

Dr. Friederich: Yes, bad debts are shown. Doubtful debts go under liabilities.

Chairman: Not by a separate entry?

Dr. Friederich: It is entered as a separate item under liability. It is a reservation which does not appear in the balance sheet.

Mr. Manu Subedar: If a security is purchased at 77 and in the course of a year it goes down to 72, the security being held, would it be right for the bank to show the security at cost price of 77, or would you say that it had better be taken at 72 and the difference taken to the profit and loss account?

Mr. Cassels: It cannot be valued above the market price.

Mr. Manu Subedar: For the reason that the price may not be uniform and it may not be possible to put in the balance sheet all the information But would the market price be adjusted year after year and the profit taken to the profit and loss account?

Mr. Cassels: You would never take the profit into account until it is realised.

Mr. Manu Subedar: In the case of a building, there is a general feeling that a loss occurs because property price tends to go down. Would you show the loss in the balance sheet?

Mr. Cassels: The Canadian banks do not hold any buildings except those which are in their own occupation.

Mr. Manu Subedar: You are not allowed to lend against buildings. There are banks in this country, including the Imperial Bank, who lend. Sometimes they become owners of the buildings, and the markets being bad they cannot sell off; so they have to be held on for some time. This has come in for more criticism in India than the valuation of investments. You cannot say that the market value must be ascertained for all investments. If it is a profit, the profit is not taken until it is realised, but if it is a loss and the market has fallen, the amount should be written down and taken as loss.

Mr. Cassels: Quite.

Dr. Trip: I must say it is not always done at once. The banks may be in the position that they are not strong enough to bear the loss in one single year.

Mr. Manu Subedar: Then the question arises whether it is better for them to go into liquidation or to spread the loss over more than one year. The latter practice has been followed, especially after the War.

Sir Hugh Cocke: Could you not spread the loss over two years?

Dr. Trip: It would place the banks in an awkward position.

Sir Hugh Cocke: I take it that doubtful debts would never be shown separately on the assets side of the balance sheet provided there were satisfactory reserves on the other side.

Dr. Friederich: No.

Sir Hugh Cocke: I take it that no one of the experts would recommend that this should be done provided the provision is there. There has been a great controversy on account of having a form of balance sheet which has to be complied with. It has been suggested that even if there be the provision to cover doubtful debts these must be shown separately in the balance sheet, because if you put them under any other heading, you will not be following the prescribed form. We got the form altered to meet this, but we have had evidence before us that the alteration should not have been made and that banks should show their doubtful debts.

Dr. Trip: We do not recommend it.

Mr. Currie: We are in agreement with paragraphs 6, 7 and 8.

No. 9 is a question which I raised on "Commercial Banking." There it is shown that all indigenous bankers would be included in the Central Bankers' Association.

Dr. Trip: When we discussed this question, I remember that the Vice-Chairman was very much interested in this question. He wanted to have

one Association for all banks and bankers. So perhaps we can wait until Sir Purshotamdas comes back.

Chairman: He may not come back till next Thursday or Friday.

Dr. Trip: We suggested that there should be a separate Central Bankers' Association, the members of which would only be those bankers who have rediscount facilities from the Reserve Bank, but Sir Purshotamdas preferred to have one Association with separate sub-committees.

Chairman: We recommend one Bankers' Association which will include all categories. It was agreed that that would be the best way of securing the maximum co-operation. But this would not prevent the various units from forming their own associations if they wanted to do so, but we do not intend to recommend that. We only recommend that after the formation of the Central Bankers' Association they can work in sub-committees. India is a very big country and supposing that an indigenous banker in Bombay or Calcutta wanted to start his own association; we know nothing about that. The analogy would apply to the case of Indian business firms. You have an Indian Merchants' Chamber in Bombay and you have one in Calcutta and they are federated to a Federated Chamber. This will correspond to a federated chamber on the bank's side, but this does not mean that the others, if they wanted to form associations of their own, would be stopped from doing so.

Mr. Currie: The recommendation is for an Indigenous Bankers' Association which would cover all indigenous bankers, including those who are not eligible to enter the Central Bankers' Association.

Chairman: I quite see the anomaly. If an indigenous banker who cannot get his bills discounted by the Reserve Bank actually becomes a member of the Central Bankers' Association, how can you prevent him from using the designation? He is actually a member and you cannot possibly prevent his using that designation. I shall take a note of the point and have it cleared up. Perhaps it is intended to cover the indigenous bankers mentioned in para. 17 of the paper on "Commercial Banking", but it is only a limited class who will be allowed to do commercial banking business.

Mr. Manu Subedar: I am not clear about the limited class. Once the man becomes a banker he is *ipso facto* entitled to be a member of the association.

Chairman: That is precisely the position referred to. Those to whom Mr. Subedar refers, as confining themselves to banking, produce proper accounts and will have re-discounting facilities, and no difficulty would arise in their case.

Dr. Trip: I was under the impression that it must be left to the Reserve Bank, so that the possibility would arise that if you had an indigenous banker who even confined himself to banking would nevertheless have no discount facilities from the Reserve Bank.

Mr. Manu Subedar: The Reserve Bank may give you discount facilities only on certain classes of paper; it is always entitled to say 'I do not accept this particular paper'. If it does not accept the particular class of paper brought in for discount, what happens?

Mr. Cassels: It would not discount unless he has been approved.

Mr. Manu Subedar: Would you suggest any principles on which the Reserve Bank would approve, *e.g.*, the class of business he is doing, the class of customers with which it deals?

Mr. Cassels: The man's character, ability, etc., will be the test.

Chairman: In the paper on Money Market we have said that indigenous bankers who satisfy certain conditions would be eligible for this concession.

Dr. Trip: Yes, please see para. 11 of the paper on Money Market. I understood that the possibility would be created that indigenous bankers are placed on the approved list by the Reserve Bank, but they would not have the *right* to obtain rediscounting facilities.

Mr. Manu Subedar: The discretion will still remain with the Reserve Bank.

Dr. Trip: Yes, I remember that the Netherlands Bank, wanting to stimulate the position of Amsterdam as an acceptance market, made an arrangement under which the paper is scrutinised by them before it is discounted and a notice is placed on the paper that it belongs to the paper under the arrangement, but this does not mean that they undertake the duty of rediscounting. If the paper comes to them after one or two months, they are free to refuse to rediscount it; so they never undertook the obligation.

Mr. Manu Subedar: They would be free as joint stock and other banks are, so that the discretion which they have of restricting the paper, which they take from any particular member, would be uniform. The restriction will not apply to any particular time so that they can say "we want to control the market." What I do not understand is the case of a banker, however small he may be, who produces his paper with names known to the Reserve Bank and a class of a paper which the Reserve Bank is handling; and if he is a member of the Central Bankers' Association, the Reserve Bank would not refuse to discount it. I do not say the Reserve Bank would not be entitled in certain extreme cases to do so.

Dr. Trip: For instance, if you have an indigenous banker who does only banking business but who has a capital of let us say only Rs. 25,000 and who has invested part of that capital in mortgage. Then I can conceive that the Reserve Bank will say 'your business is not liquid enough to grant you rediscount facilities'. This would not be discrimination.

Chairman: I see the point of Mr. Currie's observations. As para. 17 stands it is really para. 17 in one paper and sub-para. 9 in the other paper, that is, all these banks and indigenous bankers who are eligible to receive that discounting facility from the Reserve Bank may become members of the All-India Association but according to para. 9 it is only those who have actually received that concession who will be allowed to use the term Member of the Central Bankers' Association. That was undoubtedly what was intended. The other should be called associate members. That is right. There is no anomaly. These would be full members and the others would be put into the category of associate members.

Mr. Currie: I see.

Mr. Buckley: Suppose the Reserve Bank one day says, 'I am not discounting any more of your paper'.

Chairman: Broadly the rules will provide that it will immediately be put down to an associate membership.

Mr. Buckley: My idea is—take Bombay for example. In Bombay you would have one Association called the Bombay Bankers' Association comprising the Indian joint stock banks, indigenous bankers and the exchange banks. Each class of banks would have a sub-committee. Now take the indigenous banker. He would not be admitted as a member of the Association until the sub-committee of indigenous bankers informed the general committee that he had adopted the rules laid down, namely, given up trading and so on; and once a member of that association he could then use after his name Member of the Bombay Bankers' Association. The same thing would happen in Calcutta, Madras, Rangoon and so on. Then over and above all these Associations you would have a Central Bankers' Association and this Association would be merely a body co-ordinating all the others for the purposes of making representations to Government, etc. By that scheme, the question as to whether you are a member of the Association and can get discount facilities, or whether you have to get discount facilities before you are a member is all wiped out.

Chairman: But then this does not bar the provincial associations. We are concerned only with the Central Association but it does not wholly meet the difficulty to which you refer. Undoubtedly there should be some form of election from the provincial to the Central Association. That is all right. Then we come across people, some of whom actually enjoy the rediscounting facilities of the Reserve Bank, others do not. Therefore I think we came to the conclusion that there must be a class of members and another class of associates. You might begin by saying you do not want associates and only such people will be eligible for election in that Central Association who have actually received that concession and are enjoying it. That does not meet the point you raised, because after one of these gentlemen becomes a member of the Central Association, the Reserve Bank can under certain circumstances direct his exclusion from the schedule.

Mr. Buckley: It is a matter of detail.

Chairman: I think that really meets your point, Mr. Currie.

Mr. Currie: Point 10, we are in agreement, but 11 includes a great number of suggestions, with some of which we do not agree. We do not quite know whether or not these points in Statement A are recommendations.

Chairman: These items have been left over for further discussion. Statement A was sent to you for your information but in these matters though you recommended legislation we are unable to agree to put them in the items which require legislation. The reasons are two-fold. For example take items 3 and 4. It was found in Statement A that legislative provisions already existed. Similarly as regards 5, legislative provision

already exists. It may not be in the Indian Companies Act, but in some other Act. Similarly for 2, legislative provision already exists. In item 1 the difficulty is that we have to examine the legal position of the trust receipt. There is a good deal of complication between the civil aspect of the case and the criminal aspect of the case. Therefore we put that off for further discussions. In regard to the other items I have told you broadly what the position is that we discovered ourselves, that provision existed even in the Indian Companies' Act or in some general legislation. Statement B contains a large list of items in regard to which owing to want of time we could not discuss among ourselves and come to provisional conclusions. Then we saw the general trend when this Committee had their preliminary discussion with you. Looking at the proceedings I find that the general attitude you took was that none of those items ought to be included in groups 4, 5, 6 and 8. In discussion you admitted that you were not fully familiar with conditions in India, and if the Committee thought that any particular item ought to be dealt with differently you would not have any strong objection. Is that understanding of your attitude correct?

Mr. Currie: That does apply to quite a number of the recommendations in this paper, but there are also a large number which we think would be very harmful to banking in India if they were included.

Chairman: Could you kindly tell us those items?

Mr. Currie: I shall start with the items which we are prepared to leave for your Committee's consideration. These are:—Item 4—we are willing to leave that to your decision. In the same way No. 5 and No. 8, prohibition of the managing agency system for banks. I don't think that exists.

Mr. Lamond: One case.

Mr. Cassells: It does not say for banks in my copy.

Chairman: It is intended for banks.

Mr. Currie: No. 9 we leave to the Committee. Also No. 13—selection of only firms of auditors of long standing, experience, etc. Also (*b*) appointment of two auditors, one by the directors and the other by the shareholders. No. 15—the provision requiring auditors to bring to notice all irregularities discovered by them. We are not quite clear to whom.

Chairman: To the shareholders. That is in their audit report.

Mr. Currie: No. 16—provision to give the right to auditors to make any report they like. We do not quite like that "any report they like".

Mr. Manu Subedar: That means all defects which come to their knowledge.

Mr. Currie: In the same way No. 17—provision to authorise auditors to pay surprise visits, we leave to your Committee. Also Nos. 18 and 21. I am not in agreement with No. 20. No. 26—provision that the expenses of enquiry should be borne by the State if it results in prosecution—As far as that goes I am in agreement, but the latter half of the question we are not in agreement with. We think that if an applicant makes an application and money is spent and it proves to be frivolous, he ought to pay for it.

Chairman: What about 22?

Mr. Currie: We are not in favour.

Chairman: Then you cannot be in favour of 26.

Mr. Currie: We are in favour of the first part of 26 but with the rest we are not in agreement.

Mr. Currie: No. 27—we are in agreement.

Chairman: What do you mean when you say you are in agreement?

Mr. Currie: We are in gaeement to leave it to your decision. No. 28 we are not in agreement with, because it is conceivable that circumstances might arise when it would be desirable that the director of a bank might be director of another bank doing a different form of business.

Chairman: When you say you are not in agreement, you mean you are opposed to any legislation about it?

Mr. Currie: Yes. No. 29 we are prepared to leave to your Committee, but Mr. Chairman, I would like to point out that in my own particular concern, we should be reduced to about 3 partners if such a law existed. We do not quite know what No. 30 means.

Chairman: The Act should specify that persons who do not satisfy certain conditions will not be eligible for the office of the director of any bank.

Mr. Currie: In the case of an undischarged bankrupt or something of that sort?

Chairman: Yes.

Mr. Currie: Well, I think we can leave that to your decision.

Chairman: It is quite possible that we might not resort to legislation on many of these matters, but these are all the outstanding items on which we desire that some legislation might be made.

Mr. Currie: No. 31—prohibition against the director of a bank acting as its liquidator—we are not in agreement if it is voluntary liquidation. Nos. 32 and 33, we think, should be left to the shareholders. We do not feel that there should be any legislation about that. No. 36 restriction of Chairman of a board of directors acting in that capacity for more than 3 years. We are quite prepared to leave that to your decision. No. 38—provisions requiring inclusion of certain particulars in the directors' report—we are not quite clear what that means.

Chairman: That is again for the shareholders and probably refers to things like what Dr. Trip referred to, namely, details of valuation, etc.

Mr. Currie: I am quite prepared to leave that to your Committee. No. 41—provisions requiring that the names of the Manager etc.—we are in agreement with. Nos. 42 and 43 we leave to your decision. With regard to No. 43, in Dr. Trip's country, I gather, they have the same practice.

Dr. Trip: In my country it is always done. I may say it is the general practice with regard to all joint stock companies.

Mr. Lamond: I think also with regard to the staff?

Dr. Trip: Yes. They all get a share of the profits.

Mr. Manu Subedar: Is there no wrangling over how the profits shall be shared?

Dr. Trip: There is the board of directors.

Chairman: Therefore you do not advocate any action with regard to that?

Dr. Trip: No. From my point of view I do not recommend any action, but if it is necessary with regard to the conditions in this country, I do not object.

Mr. Cassels: Our Committee are not unanimous on this point.

Dr. Trip: It is not a question, I think, of unanimity, it is only a question of the practice in different countries.

Mr. Currie: No. 45—we leave to your Committee. No. 46 we leave to the Committee. No. 47—we are not quite clear what it means.

Chairman: That is a question of transfer of bank shares.

Sir Hugh Cocke: If a man is indebted to the bank he has shares lodged with the bank, and the bank would refuse to give them up. That is what it amounts to.

Mr. Manu Subedar: If in the case of a debtor, these assets are not otherwise sufficient and he wants to transfer his holding in the bank to some other debtor, the bank's debt gains priority. That is a general provision in the joint stock companies' Act in this country, under which the joint stock company can refuse to transfer the cash.

Mr. Lamond: That is not the point—it is liens.

Sir Hugh Cocke: Now this suggests that it should be confined to partly paid shares and should not be allowed to operate for fully paid shares. I do not see any difference myself.

Mr. Manu Subedar: If there is a substantial holder of partly paid shares and he transfers them to a weaker holder, then in the even of liquidation the bank loses the support of that substantial holder; they do not want to lose that.

Mr. Lamond: I don't see it. The broker must put up good shares if he sells them to anyone.

Mr. Manu Subedar: It certainly does not restrict the market.

Mr. Currie: I do not think we are in agreement with that. No. 48—there again we are not quite sure what the proposal is.

Mr. Lamond: I think it is with regard to realisation.

Dr. Trip: Special mortgages for short-term credits, for instance, for a year?

Mr. Manu Subedar: The idea was this that at present properties mortgaged to banks are registered with the Registrar, who is overloaded with all sorts of documents including documents of private parties. Therefore a bank, if it wanted to know whether this property was mortgaged to another bank would take a long time. No borrower would be in a position to put one set of security on equitable mortgage without registered mortgage by one bank and to transfer it by registered mortgage to another bank. A case occurred in Calcutta where on the same property one man raised money from two banks.

Mr. Lamond: That was an accident.

Chairman: The Committee's summary is this: it is stated that owing to legal difficulties, complicated procedure and expenses of mortgage people are unable to utilise land for creating credit and it is with that object in view that these bankers' mortgages have been proposed.

Mr. Manu Subedar: In this case a banker's mortgage should have priority in a court of law. Ordinarily what happens is, that the mortgagee, when he tries to release the property, has all sorts of difficulties on account of people's prior claim on the property under various laws. The bankers' mortgage ought to be free from all these complications.

Chairman: Item (48) in Statement B which reads "Proposal to create a kind of Bankers' mortgages with certain concessions" is a recommendation based on the Sub-Committee's Report contained in para. 117 thereon. What are your views on that?

Mr. Currie: I leave it to your Committee to decide. With regard to item 51 I am not sure why blank transfer of shares should be prohibited.

Mr. Buckley: By making such a regulation the banks would be prohibited from making advances against shares held in any name other than the name of the borrower. What happens to-day is that people buy shares which are in the names of other persons and these shares are deposited with banks as security for advances. The reason why they do not want to transfer the share is to avoid the stamp duty thus entailed.

Mr. Currie: In that case we have no objection to the suggestion, if a special stamp duty could be arranged.

Chairman: Now that we have exhausted this paper the Committee would naturally like to know the reasons for your objection to certain items, where you say legislation is not required.

Mr. Currie: With regard to item (1) under Statement B, we are of opinion that clean advances, as Dr. Jeidels told you, may be the basis of advances which a bank legitimately makes and to make any stipulation in regard to the capital of the bank seems to be hampering its proper field of activity.

Chairman: If we wanted to make a provision there it will immediately conflict with the statement you have made elsewhere.

Mr. Currie: That is so. Items (2) and (3) also practically fall under the same category. With regard to item (7) we do not see how it is possible to draw any hard and fast line with regard to long and short term business.

Chairman: It may conflict again with some of our recommendations on Industrial Finance.

Mr. Currie: Yes. We are of opinion that with regard to item (10) we cannot make legislation at the present moment because the co-operative movement covers only a very small proportion of agricultural finance at present. With regard to item (11) we are of opinion that it will also conflict with the development of banking in India.

Chairman: With regard to item (12) I think your view is that those people who do not conform to certain conditions in law will not be allowed to use the term "Banker" or "Bank".

Mr. Manu Subedar: Can we not have Mr. Currie's view as to why a legislative provision in regard to this matter should not be made in the case of foreign concerns working in this country?

Chairman: If you are prepared to discuss it in connection with the paper on foreign banks I am prepared to leave it there for the present. As it is, there are certain paragraphs in the body of this document which are reserved for such discussion.

Mr. Currie: With regard to item (14) I do not know what that really means.

Chairman: In the absence of Sir Hugh Cocke, I would ask Mr. Manu Subedar to explain the position.

Mr. Manu Subedar: I do not say I am necessarily in favour of this item. The point is that on the last day of the working year when the balance sheet is prepared banks generally show an increase in the cash position by selling a lump of Government securities and so on. This is almost a universal custom among banks and by this regulation the auditor should be enabled to give the every day cash position just to enable the public to judge the comparative cash position. I do not, however, insist upon this.

Chairman: Will not this item be covered by item (16)?

Mr. Manu Subedar: Item (16) is a permissive legislation but this is obligatory.

Chairman: Anyway we will leave it at that.

Mr. Currie: Item (19) we do not like this legislation. Management should not hold proxies but the directors are the proper representatives of the shareholders to represent the latter's interests. With regard to item (20) we are not in agreement as the practice is for the banks themselves to have the accounts of branches audited by their own Inspectors and these returns are accepted by the auditors who audit the accounts of the bank.

Mr. Manu Subedar: At present the auditor says that the returns of the up-country branches have been incorporated into the main accounts. The auditors themselves do not know the exact position of up-country branches except through these returns which are placed before them by the management.

Mr. Cassels: The practice is, except in the case of large up-country branches where separate audit is done, small branches are inspected by the bank's own inspectors which are accepted by the auditors.

Chairman: Is there any provision in the English Act with regard to this point?

Mr. Currie: No. It is only the practice.

Dr. Trip: I would like to ask whether it will meet your point if this subject were left to the discretion of the shareholders. In my country, the shareholders are given the power to call for audited reports, if they so desire. The management has to follow the wishes of the shareholders.

Chairman: Therefore you will have no objection if such a provision is made in the Indian Banking Act as well?

Dr. Trip: I think that is the right thing to do. It is better to leave it to the shareholders to decide.

Mr. Cassels: The situation in Canada is much the same as it is in England. There is no statutory provision in that country but it is only the custom.

Mr. Manu Subedar: They will have to give notice of resolutions in advance. Shareholders are not a mobile body, and their power is restricted by the fact that they will have to call a special meeting and pass the resolution(s) at that meeting and again confirm the resolution(s) at the next meeting and for this a certain majority is provided. Shareholders have infinite power under law, but their power is difficult to exercise.

Dr. Trip: It is everywhere the same. If you put in a strict provision it will be harmful to the bank. It will have to spend a lot of money on the investigation by the auditor of branches every year.

Dr. Friederich: In my country, we have no legal provisions with regard to audit of commercial banks. It is left to the managing committee and the board of directors. In case shareholders want special audit they can get it. If the majority ask for it, it will have to be done. Every bank has its special auditing department and its inspectors have to go round and inspect the bank's branches.

Chairman: (22). Your point is that it should be left to the Reserve Bank, but you would not object to a Controller of Banks?

Mr. Currie: If the Reserve Bank thinks it necessary, with regard to the position of the country, we quite agree.

Chairman: (23). We consider that one-tenth is most useful for an ordinary industrial concern. It will do no harm to a credit concern like a bank.

Mr. Currie: Such an application would probably result in a run on the bank. In the 1929 Act, in England, I think one-third was laid down.

Chairman: (24). The same thing applies here. If people want to subject a bank to such a strain on its credit, they should have sufficient motive to induce them.

Mr. Manu Subedar: (25). Would you give the authority to any one in the country to prosecute a person connected with a bank who is criminally liable? The banking company may do it, Government may do it, but Government have at present no adequate machinery. As a matter of fact those who put this forward find that various people involved in frauds, with regard to banks have escaped scot-free.

Mr. Ramdas Pantulu: As a matter of fact anybody can prosecute. Section 90 C. P. C. authorises any private individual to do so.

Mr. Manu Subedar: How then has it happened that these people responsible for frauds have escaped? If a bank has gone into liquidation the liquidator is concerned with his own business of clearing up, and he has no personal motive to institute a prosecution. This is a social wrong and it induces other people to do the same, but if a man is brought to book, it will have a deterrent effect, and to that extent it would do good to banks.

Mr. Cassels: When a liquidator is appointed it means that the liquidator must report to the court if somebody has been guilty of malfeasance in regard to the bank. It is his duty to put this information before the Public Prosecutor.

Mr. Manu Subedar: Would you say if the machinery is lax it does not matter? Would you say it is the proper thing for some public authority?

Dr. Trip: Everybody who knows such an act is, in my country, compelled by law, to report the matter to the Public Prosecutor.

Mr. Manu Subedar: Here what happens is that the Public Prosecutor and others who are authorised by law to act do not act quick enough, and the man takes the booty and goes away. We will examine the procedure under which it is done at present and if we find it is not sufficiently strong to bring to book the guilty, you have no objection to our suggesting additional measures.

Dr. Trip: No.

Mr. Ramdas Pantulu: Anybody can complain to the District Magistrate who is the head of the police. Even in the case of a Public Prosecutor somebody will have to complain to him before he can take action. When people come forward I do not think district magistrates have been found to be lax in having matters investigated.

Chairman: We can discuss that among ourselves.

Mr. Currie: (28). A bank dealing in foreign exchange will not be doing exactly the same business as joint stock banks. It will be doing business with joint stock banks on its own behalf. The directors of that bank could very desirably be directors of joint stock banks. In England the directors of banks are also directors of banks doing special business such as financing trade between England and South Africa, between England and Australia. I think such a regulation would very much limit the number of directors of character.

Chairman: (31). You have said that you would agree, but you are not for voluntary liquidation. (32) and (33). You want to give the power to shareholders alone.

Mr. Currie: (34). In this case our opinion is that if a director is in disagreement with the Board on a question of policy his only means of bringing the matter immediately to the notice of the shareholders is by immediately resigning from the board. A general meeting may not take place for another 9 months and in the meantime the policy would have been adopted. It is therefore considered that the director should be left the power to resign in order to show his disapproval of the policy the board is adopting.

Mr. Manu Subedar: A letter of resignation by such a director, in which he gives his reasons, is the property of the bank and shareholders are not entitled to see it. A case occurred where the shareholders wanted to see a director's letter of resignation, but it was not shown to them.

Dr. Trip: It is another point.

Mr. Manu Subedar: Mr. Currie said that there should be no prohibition in order that the director may be able to draw the attention of the shareholders to the disagreement on a question of policy. I agree. There is nothing in law to compel the management to show the letter of resignation to shareholders.

Dr. Trip: It is not so in my country. They would ask at the general meeting.

Mr. Manu Subedar: That is after 9 months.

Dr. Trip: If as a director I have a strong opinion against the management I would put my view in a finance paper and then the public opinion will go into the situation.

Mr. Manu Subedar: Such a letter of resignation should be circulated to shareholders so that they will know. A certain number, let us say 5 per cent., must have the right to ask for the circulation of the letter.

Dr. Trip: That comes under (37).

Mr. Manu Subedar: An enquiry is a much more serious thing than the policy on which a director has resigned.

Mr. Ramdas Pantulu: Would it be in the interests of the bank? Suppose he makes allegations against other shareholders. Each case should be left to be decided on its own merits.

Mr. Manu Subedar: (37). Some of us might favour a one-third provision. One shareholder who is troublesome may come with a long list of 50 queries. If a substantial body of shareholders wanted some information then perhaps there is some case.

Mr. Currie: What do you call a substantial body?

Mr. Manu Subedar: I should say one-tenth.

Dr. Trip: Shareholders have the right to convene a general meeting. They can put there all the questions they like. I do not say they are all answered. I think it should be left to the mangement and the directorate to decide whether it is in the general interests of the company or the bank to give information or not.

Chairman: A specific proposal was placed before us, based on section (54) of the Canadian Bank Act, that directors should submit to shareholders all such further statements of the affairs of the bank as the shareholders may require by a bye-law passed at a general meeting or at any special meeting of the shareholders called for the purpose.

Dr. Trip: It is not all the information they want to get.

Chairman: That is provided for by section (54) of the Bank Act of Canada.

Dr. Trip: I think it would not be so objectionable. A general meeting of the shareholders have to decide, and then it is a question of what the majority of shareholders want. There is the difference.

Dr. Hyder: If it is done by a resolution that will be acceptable.

Chairman: You would have no objection to a provision on the lines of the Canadian Bank Act.

Mr. Cassels: We would not object to that.

Mr. Manu Subedar: (39). It merely means every institution doing banking business in India will come under the law relating to this.

Chairman: Every institution registered under the Indian Companies Act?

Mr. Manu Subedar: That is the idea. All that we can reasonably suggest is with regard to banking institutions registered under the law in India, and when they are so registered there may be some reasonable ground for it. I should like to know Mr. Currie's views with regard to such a provision for institutions registered in India.

Mr. Currie: I think it is an interference with the rights of shareholders. If the shareholders agree to such a restriction it is entirely a different matter.

Mr. Manu Subedar: The shareholders can say that the majority should be Indians.

Chairman: The majority of shareholders, even if they are Indians, may not decide to have a majority of Indian directors. It does not make it legally incumbent on them to take that action.

Mr. Manu Subedar: Do you know of any other country where the majority of the directors of banking institutions are not required to be the nationals of the country?

Mr. Currie: In England they are not required.

Mr. Sarker: No other nationals can be a member of the court of management of the Bank of England.

Mr. Currie: That is not a commercial bank.

Mr. Sarker: In Canada?

Mr. Cassels: The law is that the majority of the directors must be British born subjects of His Majesty domiciled in Canada.

Dr. Friederich: We have such a restriction, not for joint stock banks, but for the Reserve Bank.

Dr. Trip: In Holland there is no restriction except with regard to the Reserve Bank.

Mr. Manu Subedar: Having regard to the situation in India in which foreigners dominate the economic life of the country, would you say that such a regulation is not good?

Mr. Currie: Covering all institutions in India?

Mr. Manu Subedar: Covering institutions registered under the Indian law.

Mr. Currie: I do not think so. The regulations should leave shareholders free to select such directors as they think fit. There is an exception perhaps in the case of the central institution, but where commercial business is concerned the shareholders should have the deciding power.

Mr. Manu Subedar: If the activities of the shareholders are harmful to the nation?

Mr. Currie: I do not see how they will be.

Mr. Manu Subedar: In the sense of transferring the controlling power to alien hands.

Mr. Currie: Shareholders have still got the control over the directors.

Mr. Manu Subedar: What we want to do is to restrict their discretion with regard to the nationality of directors.

Mr. Currie: Why should you do it? All that is necessary is that the directorate should be efficient.

Mr. Manu Subedar: Shareholders have discretion over a wide field. It is only restricted with regard to the appointment of those who are not the nationals of this country.

Mr. Currie: Would you omit any body who might be very useful to them just because he is not an Indian?

Mr. Manu Subedar: He might come in in any other capacity than as a director. He may be a manager.

Mr. Currie: Why should he not be a director?

Mr. Manu Subedar: He should not have the controlling voice.

Dr. Trip: It may be a political point, it is not a banking point.

Mr. Manu Subedar: Having regard to the peculiar situation in India—your country's economic life is not circumscribed by dominant foreign interests—if a provision is made for this, what will be the harm it will do to the country?

Dr. Trip: I think the situation of this country is at present dominated by political sentiment, and we as experts are not prepared to enter that field. Our experience is that there are no legal restrictions in that respect in our countries, and if you want to have them I think it would be for political reasons with which we are not concerned.

Mr. Currie: Item (40). I do not know how you are going to find out the standard of qualification for the Manager of a bank except through the directors who would naturally make sure that the manager is a capable and experienced banker.

Mr. Currie: Item (44). The depositors should have no right to appoint directors; they only deposit their money with a bank; if they do not like a particular bank, they deposit their money with another. The control of the bank is the business of shareholders.

Chairman: Is any such power given to the depositors in any of the countries from which you come?

Mr. Currie: No.

Mr. Manu Subedar: In the event of a liquidation, you know that creditors have considerable power, both under law and in practice. A suggestion was made to us that some kind of provision such as we have made should be provided for. It is a difficult suggestion to carry out, but I would like to know whether there is any precedent for this.

Mr. Currie: We do not know of any.

Mr. Currie: Item (50). Prohibition of share hawking. This seems to be rather a vulgar way of describing Industrial finance. You cannot for instance advise an industrial bank that they must not hawk shares.

Mr. Lamond: These are intended to be their own shares.

Mr. Currie: Item 51. We have no objection if an exception is made for loans against shares.

Mr. Currie: Item (52). Prescribing a time limit within which transfers should be registered. This does not seem to be possible.

Sir Hugh Cocke: It is to prevent the holding of blank transfers for an indefinite period which is so common in India.

Mr. Currie: If a blank transfer is not produced for registration, how are you going to put a time limit?

Sir Hugh Cocke: I suppose legally the transferor or transferee would not get his money.

Mr. Currie: It would bring the law into contempt.

Mr. Buckley: If you legislate for (51), (52) would be unnecessary.

Chairman: Item (58). The opening of new branches will come in another paper. What about the provision requiring information regarding the closing of branches?

Mr. Currie: It seems to me to be entirely a business for the bank itself.

Dr. Trip: I think there is some contradiction between this clause and the recommendation that "banks should expand as much as possible".

Chairman: We are not dealing with the opening of branches; that will come in another paper. We are only discussing here about the closing of branches.

Mr. Lamond: I think it would merely be an intimation to the Reserve Bank that the bank is going to close down.

Mr. Manu Subedar: If there is a party which gives permission for the opening of branches, it is good for that party to know why an institution is closing down.

Mr. Currie: There can be no objection to that.

Dr. Trip: It depends on the question of licensing of new branches. This can be a provision quite apart from the licensing power of the Central Banking Authority.

Mr. Manu Subedar: But if there is a licensing authority which gives permission for the opening of branches, then that would be the proper authority to get this information also.

Dr. Trip: If we agree to this, it should not be understood to mean that we agree to the licensing authority.

Mr. Manu Subedar: (61) Prohibition to acquire controlling interest in banking institutions without the disclosure of such information to the Central Banking Authority. This applies to institutions inside the country. In the business world an acquisition is generally done with a definite business motive and if there is any such thing going on in the banking world, it should not be underhand, but known to the Central Banking Authority.

Mr. Currie: It may be a matter of buying shares.

Mr. Manu Subedar: If they acquired control, it would become obligatory on the party to send at the first opportunity information about this to the Central Banking Authority.

Mr. Currie: They may have already broken the law.

Mr. Manu Subedar: The word 'prohibition' I am afraid, occurs everywhere.

Chairman: I think it was stated that if this were done without disclosure of such information, the process itself would become illegal That is what prohibition means. It would become an illegal operation.

Dr. Trip: If the company made a legal offer and they bought shares?

Chairman: The intention was that even the purchasing of shares would become an illegal operation.

Dr. Trip: This is not necessary if you have the proper relation between the banks and the Reserve Bank.

Mr. Manu Subedar: I am afraid we have still to consider the practical difficulties. So far as we as a Committee are concerned, this is the first time we are discussing it even amongst ourselves; we would not therefore be unmindful of the difficulties. But is there any objection in principle to this? You know for example that in England an undertaking has been given that there shall not be an amalgamation of any two of the Big Five. Therefore a situation has reached where the Central Authority has to interpose. In our country there is no such danger. On the contrary, a suggestion has been made that every encouragement should be given to small banks to amalgamate in order that they may carry on much better, and more economically than they are doing. The idea is to initiate the necessary legislation so that the Central Authority would be fully seized of whatever is going on in the banking world without having regard to rumours. In India rumours play a considerable part on some occasions and I do not want the Reserve Bank to be at the mercy of these rumours. The Reserve Bank, as a Central Authority, ought to be in definite possession of direct information. If the acquisition of controlling interest is with a view to amalgamation, then there is some other clause which says that amalgamation should not take place without their permission and they would not as a rule prohibit it.

Mr. Currie: I fear the provision may hamper amalgamation.

Mr. Manu Subedar: You can add in your observations that you hope that any such provision ought not to hamper amalgamation.

Chairman: As it is, amalgamation has been provided for in item (60) and to that you have not objected.

Mr. Currie: We have no objection on principle.

Mr. Manu Subedar: Item (62); Prohibition against any party, firm, institution, or company operating through a foreign country acquiring controlling interest in any institution doing banking business in this country. I want to know the grounds on which the experts think that there is no need for any statutory provision.

Mr. Currie: The objection to any statutory regulation is that on principle it is objectionable to make any regulation which stops any individual or firm from selling his or its property in the best market he or they can find.

Dr. Hyder: Or in such forms as he may find suitable.

Mr. Currie: Yes.

Mr. Manu Subedar: With regard to this you state that it would interfere with the right of sale in the best market of the shareholders.

Mr. Currie: It might.

Mr. Manu Subedar: Is that the only objection?

Mr. Currie: That is the main objection.

Mr. Manu Subedar: I can understand, if a principle were involved as exists in your country, namely the right of every one to sell his assets in the best market. But the principle was upset in the national interests in the United Kingdom.

Mr. Currie: That was done by the directors taking action with the consent of shareholders.

Mr. Manu Subedar: It was done in a particular manner, but in effect it was set aside in the national interest.

Mr. Currie: Only by the shareholders themselves.

Mr. Manu Subedar: Here in this country if it is set aside by law?

Mr. Currie: Then I think the objection remains.

Mr. Manu Subedar: You consider that the controlling authority as a third party ought not to interfere with the shareholders?

Mr. Currie: Precisely.

Mr. Manu Subedar: You do not think that the State ought to take such action as it thinks fit in the general interests of the community but that individual interests have to submit to general interests?

Mr. Currie: I am very much against it.

Mr. Currie: (64) Proposal that depositors of small amounts may be given protection and preference by law. I am entirely against any one depositor being given preference to any other depositor.

Sir Hugh Cocke: (65) Provision to the effect that a certificate should be obtained from the Advocate General or from the Registrar of Companies before anybody takes criminal proceedings against a banking company. This arises out of the fact that certain individuals in this country have made a point of making repeated charges against banking companies and that interfered with their daily operations.

Mr. Currie: I think in the course of discussions we mentioned that if the Advocate General gave his permission for the proceedings to go on, the case would be very much worse than before.

Chairman: If in any of these cases, in which you do not advocate legislation, we later on come to the conclusion that legislation is advisable and recommend it, in fairness to you we shall make a note that you do not advocate legislation.

7th March 1931.

Mr. Cassels: Before we begin the proceedings this morning I would like to say that we have considered the question of this report and we are going to do our best to get it in your hands before we leave.

Chairman: I am extremely grateful to you and your colleagues.

Mr. Cassels: It means that we will have to devote a great deal of our time to it and you will readily understand that we may not be able to be present at all these meetings.

Chairman: As it is I am going to shorten the discussions over these papers. There is much which has nothing to do with co-operative credit. There are things like land, improvement of condition of the agriculturist, rural reconstruction, etc., which are open to doubt as to whether they come within the purview of our Committee. I shall tell my colleagues that for the present they should confine themselves to asking questions on co-operative credit, banking facilities. Then they can discuss with the agricultural experts the other ideas put forward in that paper. The position, very broadly, is this. We have had a Royal Commission on Agriculture and they have dealt with most of these problems which are contained in these papers and they certainly dealt with them in a more exhaustive fashion than is possible for any expert coming out to India for 2 or 3 months to deal with. We have a big report dealing with the whole thing. That being so in our discussions with Mr. McDougall and Dr. Friederich at this stage, Mr. Devadhar, we should confine ourselves to the co-operative credit .

Mr. Devadhar: Not necessarily.

Chairman: Later on we will have an opportunity of discussing these papers again with you because it will probably come in the subsidiary section of our report. So far as I am concerned I had an opportunity of discussing Mr. McDougall's paper with a man who was also on the Agricultural Commission and he told me that his first impression was that even the jute societies are not practical propositions. It is quite possible that at a later stage we may try and get Sir T. V. Acharya of the Agricultural Research and ask him to join in our discussions but fundamentally the subject is outside our purview.

Mr. Cassels: There is one matter about which I would like to ask—we never really settled the question of the verbal evidence being published or not.

Chairman: The memoranda you have given us and the discussions with you will have to be published unless you want them to be treated as confidential.

Mr. Cassels: We have no objection to their being published, but I just wanted to make sure whether they were going to be or not.

Dr. Trip: I think it would be of some use with regard to our report to publish them as then we could make the report shorter. Otherwise we would have to put more into our report if the memoranda and evidence were not published, but now we can refer to it.

Chairman: I think I mentioned yesterday that it was certainly my intention to publish them.

Dr. Friederich: Before we start may I make a proposal with regard to the changing of the text of my memorandum. On page 7, paragraph 5, I want to put "We are against co-operative apex banks advancing loans to

land mortgage banks for long-term mortgage credit" to make clear what I wanted to say.

Chairman: I am not sure what your objection is. I could see the objection if the apex bank should use short-term deposits for long-term loans.

Dr. Friederich: I cannot approve of it with regard to the liquidity of the apex bank. I am afraid the liquidity of the apex bank will suffer from giving mortgage credit with the help of short-term deposits.

Chairman: That I can see. I have considered it. But what is your precise objection to the apex bank taking money on long term debentures and advancing that money to a land mortgage bank again for long term loans?

Dr. Friederich: I make this proposal especially with regard to the proposal of starting special mortgage banks because I am not in favour of short-term and long-term credit business being mixed in an Apex Bank.

Chairman: Could you tell me where the mixture is if the Apex Bank takes short-term deposits and uses those deposits exclusively for short-term credit and also takes long-term debentures and uses that money in advancing money to a land mortgage bank for long-term credit?

Dr. Friederich: For instance—Mr. Pantulu will correct me if I am wrong—I could see in the balance sheet of the Madras Central Bank that debentures were issued but only a part of the whole amount raised by issuing debentures has been given to Mortgage Banks. I suppose the other part of the money raised has been used for short-term credit.

Chairman: I mean then, that long-term money is used for short-term credit—where is the objection to that?

Dr. Friederich: No objection at all. But I am not in favour of Apex Bank's raising money by issuing debentures.

Mr. Ramdas Pantulu: Before we started our central land mortgage bank only a few months ago we had only primary land mortgage banks. They were issuing their own debentures individually. Government took up debentures at half per cent. less than what they sold to the public. Then these primary mortgage banks had to go into the market. The Registrar said to the provincial banks "if you can raise some money, Government will given an equal amount, and, therefore, will you help these banks with accommodation?" Then we issued debentures for 5 lakhs and after getting to the extent of 2 lakhs we stopped it because one must have a demand for it. We lent out about a lakh, lending it to land mortgage banks. We still consider it a sound investment.

Chairman: All it comes to is this, that it is a special transaction.

Mr. Devadhar: (to Dr. Friederich) On page 1 of your paper in the paragraph about working capital you have at the back of your mind, I think, the idea that there should be division of the functions undertaken by different institutions?

Dr. Friederich: I wanted to point out that there is a difference between working capital for industries and so on and working capital for agriculture. I wanted to stress on this point.

Mr. Devadhar: I did not mean that difference. So far as capital for agriculture itself is concerned I think you propose here that there should be different types of capital financed by different types of co-operative institutions. Will you be in favour of having three different types of institutions?

Dr. Friederich: Two types will do.

Mr. Devadhar: That is co-operative societies which deal with agriculture? Do you also know that some of our societies if they have surplus funds, give money even for, say, land improvement where the period extends for 3, 4 or 5 years.

Dr. Friederich: I have no objection if these are surplus funds.

Mr. Devadhar: Would you like primary societies to restrict their operations only to that extent?

Dr. Friederich: It is sounder than in case that the working capital required for this purpose is borrowed from a central bank.

Mr. Devadhar: You would not restrict the operations of that society to such an extent as could be obtained but certainly on the basis of the local capital required you would advise borrowing from provincial banks up to a certain extent?

Dr. Friederich: Yes, but not like it has been done. At present the working capital of most primary local societies with exception of those in 2 or 3 Provinces consists to the largest extent of loans borrowed from Central Bank. Therefore the financial position of these primary societies is unsound. I am not in favour of this financial position. It is much better to start sound and to develop on a sound line—that means to develop according to the deposits which may be acquired and not to start at once on a broad credit basis, on rather a unsound basis.

Chairman: Have I understood you correctly to mean that in regard to short-term credit, namely from 6 months to one year, you have no objection to the primary societies meeting a portion of the demands on it from loans taken fror central banks?

Dr. Friederich: I have no objection.

Chairman: But if that primary society wants to grant what we may call intermediate credit, that is over one year but up to whatever it may be, 3 or 4 years, then your recommendation is that these loans must be granted out of monies obtained by deposits?

Dr. Friederich: Yes. Otherwise you will always find that a society may get into a precarious position. A Central Bank wants that loans given to local societies shall be repaid within a fixed period. If the society borrows and lends it out for a number of years of course then it may happen that it will be impossible for the society to repay.

Mr. Devadhar: I see. Therefore, you would only let the society borrow to the extent which it will be in a position to repay out of capital profits.

Dr. Friederich: This remark has been made with regard to repayment of debts of cultivators. This should be done out of the net profits obtained from agriculture.

Mr. Devadhar: I am at present dealing with primary societies which lend money to cultivators and I am trying to visualise a picture of a cultivator who is a member of the co-operative society and whose ordinary needs are met by this society. Sometimes it happens that a society may be in a position to lend money for ordinary improvement of land where the loan will have to be spread over 3 to 5 years.

Mr. Ramdas Pantulu: You find in agricultural societies about 8 crores of their own share capital is reserved. Will you admit that they can lend for intermediate purposes some of their share capital, because it is their own capital?

Dr. Friederich: I have no objection.

Mr. Devadhar: In the last column where you speak of deposits. There is no question, in my opinion, that the total contribution towards the 30 crores of these primary societies is not only 8 crores, it is little more than 8 crores. I know several societies where large sums of money have been deposited—I instanced to you that society outside Poona. It has not borrowed a single rupee on a capital of something like 2 lakhs a year. In a case like that would you have any objection to liquidating old debts of members, or giving longer loans?

Dr. Friederich: It should not be done on principle but it can be done to a certain extent. That depends always on whether the liquidity and solvency of a society is touched by giving such loans. You cannot decide that generally, it is a matter for the Manager.

Mr. Devadhar: I can assure you that when a society undertakes a transaction of this nature, it generally goes without saying that it is of long standing and has acquired some experience and some prestige. What I wanted to know from you was whether on the basis of the experience you have had in your own country you would have any objection to such surplus funds being given for improvement of land, etc.?

Dr. Friederich: I have no objection if it is done to a reasonable extent.

Chairman: Your point is one of principle and the sense of it is that short-term money should not be utilised for long-term credit. If, on the other hand, a primary society has money either of its own or money which is raised by long-term deposits, or money which it can get from the central bank on long-term credit, say, for 4 or 5 years, then would you have any objection for that primary society to grant long-term credit subject to those limitations?

Dr. Friederich: Not long-term credit, intermediate credit.

Mr. Devadhar: What would be your definition exactly of this intermediate credit?

Dr. Friederich: Perhaps up to 3 to 5 years. In my country it is done up to 3 or 4 years, the utmost period is 5 years but under no circumstances longer.

Mr. Devadhar: If there is provision available for accommodation, you would do it? When there are cases in which a longer period is necessary, beyond 5 years, for repayment out of additional profit, what method would you suggest?

Dr. Friederich: That is a matter for land mortgage banks.

Mr. Devadhar: I should like to know whether you would be in favour of a sufficiently long period. In some countries the period is sometimes 75 years and even 100 years. At present some feeble attempt has been made to start land mortgage banks with some help from Government in some places and in some places separating it after some time, but the point is of funds. They will have to spread it over a very long period. No bank would be prepared to undertake that kind of responsibilities, so funds will be necessary, the repayment of which will have to be spread over a long period. What would your advice be to secure these funds?

Dr. Friederich: In our paper on mortgage banks we suggested the issue of debentures. We are in favour of Government supplying a portion of the share capital.

Mr. Devadhar: There is another alternative, namely, guarantee of interest. Would you be in favour of that?

Dr. Friederich: In our paper we are not in favour of any guarantee. That is our joint opinion.

Mr. Devadhar: You prefer subscriptions of equal shares of debentures to guarantee of interest on the part of the State? Which would you prefer, the State subscribing to share capital or the debenture capital or to the guaranteeing of interest thereon?

Dr. Friederich: My view is self-help is the best help in all these matters.

Chairman: As Mr. McDougall has dealt with this subject in his paper I suggest that it is better to deal with this matter when we come to discuss his paper.

Mr. Devadhar: Are you not in favour of State help at least in the beginning to foster the growth of the co-operative movement? For a parallel I might mention that at the commencement of the co-operative movement the State offered help up to the extent of Rs. 2,000 if an equal amount was also collected by the public.

Dr. Friederich: For instance, with regard to marketing societies I am in favour of this organisation being subsidised by Government.

Mr. Devadhar: My point is that you cannot expect these new societies to start and function all of a sudden without State help; but after some period it might be possible for them to stand on their own legs.

Dr. Friederich: I have no objection to State assistance being given under such circumstances.

Mr. Devadhar: What is your idea, at which rate do you think Government should advance money?

Dr. Friederich: It must, if at all, be at a very low rate of interest. For instance, in my country when Government lends money it is usually given at a very low rate and sometimes without interest.

Mr. Devadhar: How much lower than the official rate?

Dr. Friederich: It is generally done at 3 or 4 per cent. when the official rate is 6 or 7 per cent.

Mr. Devadhar: What is the period of repayment?

Dr. Friederich: It is always rather short. Sometimes it may extend to a period of from 3 to 5 years. It all depends on circumstances.

Mr. Devadhar: You told us that in Germany some advances are made without interest and some with interest, would you please let us know if Rs. 10 lakhs were to be made as State aid, then what would be the interest rate that would be charged?

Dr. Friederich: It depends on the special kind of societies. If you want to start co-operative dairies then, you should have a good amount of block capital and in such cases money is partly lent without interest. Then in the case of forming marketing societies, erecting warehouses, godowns and so on, money is sometimes partly advanced without any interest.

Mr. Ramdas Pantulu: May I know how Government helps the agriculturists in the case of a widespread failure of crops?

Dr. Friederich: In such cases it is the duty of Government to remit the taxes fully or partly.

Mr. Devadhar: What Government generally does is by providing loans to agriculturists which is sometimes done through co-operative societies.

Dr. Friederich: I would rather prefer the remission of land revenue under such exceptional circumstances than granting of loans. In my country, in such matters Parliament has discretion vested in it.

Mr. Ramdas Pantulu: Mr. Darling in his book on "Some aspects of Co-operation in Germany, Italy and Ireland", says as follows:—

> "Loans are made at the moderate rate of 4½ per cent. This or 5 per cent. is the usual rate for village banks throughout Germany. A few will charge as little as 4 per cent, a few more as much as 5½ per cent, but these are outside rates. Rates have not changed much since the movement started. In 1879 for instance the average rate was not more than 6—⅜ per cent. Now that money is dear it may be necessary to raise them again. Meanwhile a member of a village bank can easily borrow at 1½ to 2 per cent cheaper than Government and at nearly 3 per cent. cheaper than if he dealt with a commercial bank". Are these statements correct?

Dr. Friederich: I suppose these rates refer to prewar conditions in Germany. I might say they are generally correct.

Mr. Ramdas Pantulu: May I know what the prevailing rates for borrowing and deposit are in Germany?

Dr. Friederich: It is very difficult to generalise but I might say that at present the lending rate is generally between 7 and 10 per cent. on an average; while the deposit rates are between 4 and 8 per cent.

Mr. Manu Subedar: Would you not say that these high rates are due to the present state of German finance which has not yet recovered?

Dr. Friederich: Certainly, it is due to abnormal conditions. In 1924 most of our primary societies had to charge even up to 24 per cent. for their lending and it was not considered usurious because of the lack of capital in Germany.

Chairman: Therefore, the rate of interest really would depend on the availability of capital.

Dr. Friederich: That is true. It must, however, be admitted that conditions in my country and this country are not the same. I would say that if you have to strengthen the Usurious Loans Act in this country, the best way would be to limit the rate of interest. And I admit that one cannot fix the rate for all over India, because, in my opinion, conditions in India are not the same in all provinces.

Mr. Manu Subedar: Do you not think that if discretion is given to the presiding judges to decide what is a usurious rate and what is not and if the judge is supplied with facts and figures about the interest rates in the locality from time to time, would that not be enough?

Dr. Friederich: If the judges are properly informed about local conditions from time to time, then it will be enough.

Mr. Manu Subedar: Supposing 150 per cent. interest has been asked for—then I say that anybody will say that it is a usurious rate without doubt. But, my suggestion is only with regard to the rates of interest which lie on the border line.

Dr. Friederich: I have no objection to the judges deciding this matter.

Chairman: As a matter of curiosity, would you tell me the pre-war lending rates in your country?

Dr. Friederich: They were between 4 and 5 per cent. as described in Mr. Darling's book.

Chairman: And what were their borrowing rates?

Dr. Friederich: About 3 to 4 per cent. per annum.

Mr. Devadhar: You told us that Government assists these enterprises with capital. Would you tell us whether there are other forms in which Government gives assistance to industries supplementary to agriculture?

Dr. Friederich: I propose that these people shall become members of agricultural co-operative societies. I am not in favour of these special societies for special classes of people. We have all kinds of State help in our country and I think the best State aid for agriculture in your country is, in my opinion, education. It is especially required for the agriculturists.

Chairman: Mr. Devadhar's point seems to be this. Is it the practice in Germany for the State to give indirect assistance to these co-operative credit societies?

Dr. Friederich: No direct assistance is given to primary credit societies. State funds are given to the Apex bank (Prussia Central Co-operative Bank) and it lends in its turn to the central banks and primary societies.

Chairman: Therefore, your point is that State assistance is not given in the form of capital to primary societies?

Dr. Friederich: That is so. With regard to credit societies State assistance is given directly only to marketing societies.

Chairman: There is no subsidy from the State in the form of paying a portion of the recurring expenses of primary societies. Is that so?

Dr. Friederich: No such subsidy is made.

Chairman: In India so far as I know the State makes some assistance by meeting a share of the cost of audit of the primary societies. Mr. Devadhar is only trying to find out whether some such indirect assistance is also given to co-operative societies in Germany and if so, in what form?

Dr. Friederich: I might say that so far as to the meeting of the current expenses of co-operative societies the State does not help in any way.

Mr. Devadhar: Sometimes it is necessary to take into account the backwardness of the people and it is not enough if they are advanced money, but they must be given proper guidance by meeting the pay of a qualified Secretary or by providing the services of an officer of Government for the purpose and so on.

Chairman: I now quite follow your point Mr. Devadhar. Is it necessary to examine Dr. Friederich on that point. You know that the Royal Commission on Agriculture who went into the matter fully has recommended that it should be done.

Dr. Friederich: I might say that there is no parallel for it in my country.

Chairman: Is it any use trying to find out certain facts? He could only talk with reference to conditions prevailing in Germany. The Royal Commission on Agriculture toured all over India, and so far as I recollect, it is one of their recommendations in regard to co-operation. To the best of my recollection the Government of India have commended that recommendation for the acceptance of provincial Governments. If that is so, is it any use pursuing that matter with Mr. Friederich?

Mr. Devadhar: My point was that this kind of assistance is at present being given by some of our big banks. We utilise in backward areas some portion of the profits we make in areas where people are sufficiently advanced. To that extent some assistance was made available by Government at the earlier stages. I wanted to know whether at the stage at which co-operation in his country was more or less similar to that of co-operation here, his Government thought it necessary to give that kind of assistance directly or through banks.

Dr. Friederich: I told you direct assistance is given to marketing societies and indirect assistance to co-operative societies generally. Apex banks also get direct assistance. Loans are given to them and they are able to discount bills of exchange of primary societies, especially trade bills which come through societies, for instance, bills against purchase of manure, seed, machines, etc.

Mr. Devadhar: Is any concession given by the State?

Dr. Friederich: I cannot say concession. Our apex bank Prussia Central Co-operative Bank) is more or less a public bank. In case Government gives money to it money is safe, because Government has always the control over the bank's funds.

Chairman: We have finished with the capital part and we are now really on what I call current expenses of societies. Mr. Devadhar's point is this. Money may be there, but current expenses have to be incurred for distributing, and the area being a backward tract the current expenses are beyond the means of the primary society. In cases of that sort Government have made grants towards the current expenses of the societies. All he wants to know is a question of fact. In Germany have ever conditions like this arisen, and have Government under such conditions rendered direct assistance towards the current expenses of primary societies?

Dr. Friederich: No, not for current expenses, only for special purposes.

Chairman: Apart from capital, current expenses may be normal current expenses or they may be special current expenses. The illustration which was given refers to special current expenses.

Dr. Friederich: There is really no parallel.

Mr. Devadhar: I had in Bombay 90 co-operative societies for sweepers, scavengers, etc. It was considered part of our welfare work. We organised societies for the purpose of redemption because they were heavily in debt. I approached the Registrar who made certain grants for meeting the expenses. What I meant was but for this assistance in the beginning and the help of the Servants of India Society, Wadia Charities, etc., that work could not have been done. Because of that work people of that type knew what it was to take advantage of co-operation and how to co-operate. There are similar conditions in some backward tracts. Up to a certain extent would you not admit State assistance?

Dr. Friederich: In my country we are not in favour of State assistance. In your country there are quite different conditions and so State aid may really be absolutely necessary. I have no objection.

Dr. Hyder: Before the war in the districts which are now under Poland, the State bought land and gave it to Germans living there. This is a form of State assistance for a special purpose.

Dr. Friederich: Yes.

Mr. Devadhar: There was one society which was organised for sugar cane cultivators. In the beginning for certain years Government gave the assistance of Mamlatdars with a salary of Rs. 150. They had technical knowledge and also revenue powers. That assistance was very useful.

Dr. Friederich: I am not an advocate of State assistance. Such a system is in reality unsound. The business of every society should be run on business lines. State aid may be given in case of famine and so on and may be given directly to the people but not through primary societies.

Mr. Devadhar: Supposing there is a backward tract: the area where Gonds live in the Central Provinces. Government felt that by making some contribution to current expenses for a year or two years, it would help the growth of co-operative institutions in that part of the country. Similarly, with regard to untouchables. Now would you say that Government would be wrong in giving that assistance?

Chairman: It is not a question to be put to Dr. Friederich. He is not aware of the conditions in India. As Dr. Hyder pointed out State assistance was given in Germany in certain tracts, in Ireland also such assistance was given. If Dr. Friederich studies conditions in India for, say, two years, he will be able to give a correct opinion.

Mr. Devadhar: In our recommendations we shall have to deal with cases where financial assistance will be necessary, and in order to make that assistance truly effective some kind of indirect assistance will also be required. In order to make the case strong for that I put this question.

Dr. Hyder: The principle which you rightly enunciated has got to be modified in the light of special conditions, special needs, special circumstances and special purposes. There are people who own nothing, who are heavily indebted and who have no life in them. What is the State to do with them? Is it to follow a policy of laissez faire?

Dr. Friederich: That is not my opinion.

Chairman: Your remark applies to places where people have reached a certain standard of living and where they could be expected to take greater care of themselves. But surely in the case of the people and the areas Mr. Devadhar referred to it cannot apply.

Dr. Friederich: They all are inhabitants of India and Government should take care of them.

Chairman: In your own country years ago the people were liberated from serfdom through State assistance. Therefore, when you said that it is not done in your country, even that is not absolutely correct.

Dr. Hyder: One cannot apply a general principle. Friederich the Great helped the officer class which was ruined by the Silesian wars.

Dr. Friederich: I should like that we deal with the present conditions because what has been done you can find in books, but you cannot find in them material enough of the present conditions.

Chairman: Mr. Devadhar's point is this: there are special conditions: would you advocate Government assistance? Your first reply was that you did not advocate it under any circumstances. It is all right for normal cases. But India is not composed entirely of these normal cases.

Dr. Friederich: On page 11 second section of my memorandum I put down my answers clearly.

Chairman: Even that is not complete. It refers to crop failures and special fields such as land improvement and irrigation. But apart from these owing to backwardness of certain localities and classes such as untouchables, etc., without Government assistance towards a share of the current expenses it may be practically impossible to start co-operative societies.

Mr. Devadhar: It may be social thraldom, it may be financial thraldom.

Dr. Friederich: I advocate financial assistance in special conditions for special classes of people.

Dr. Hyder: Your principle will be all right in this country if we had the same level of education, the same level of enterprise and the same number of agencies as you have in Germany. So long as differences exist you would not press for the advocacy of your principle.

Mr. Ramdas Pantulu: Government practically bears the entire expenses of about 3,000 societies of depressed classes.

Mr. Devadhar: I will tell you why I am pursuing this question. This high sounding principle of laissez faire has its limitations, and the fullest advantage of these limitations has been taken in other countries. So when these lessons are taught to us, I want to refer to their example. State help is one of the necessary evils. He makes an exception in the case of education.

Dr. Friederich: I am really not competent to decide questions of social reform. My personal view is, however, that social reform is in reality necessary for this country.

Mr. Devadhar: We have in urban areas limited liability co-operative societies though unlimited liability societies are also coming into existence. You were advocating unlimited liability in order to distinguish credit societies from joint stock banks.

Dr. Friederich: I intend to put forward a special paper on urban banks.

Mr. Devadhar: I am now talking of primary societies with limited liability.

Dr. Friederich: Most of your urban banks are limited liability institutions.

Mr. Davadhar: Bank is a bigger proposition. You are using bank in the sense of urban societies. You will write a paper on urban societies.

Dr. Friederich: Urban credit societies.

Mr. Devadhar: And there you will deal with the question of unlimited liability.

Dr. Friederich: Yes.

Mr. Devadhar: In regard to societies for people who are heavily indebted have you any suggestions to make?

Dr. Friederich: I have already dealt with this question the other day. We shall have to deal with this question again in our paper on mortgage banks, because I think the discharge of debts is especially a matter for mortgage banks. Of course, they can only discharge debts of landowners. As regards tenants, their position is very difficult. Here considerations of Government interference should come in.

Mr. Devadhar: Uneconomic people cannot be helped. I understand it. Apart from landholders there is another class of people who are not altogether hopeless, who have small pieces of land but who are heavily indebted.

Dr. Friederich: Mortgage banks are for all landowners, big or small.

Mr. Devadhar: We have to classify people according to their needs. The demands of some are as large as Rs. 50,000. It is no use grouping them along with others. Can you give us definite suggestions with regard to small land-owners who are heavily indebted, but who are not hopeless?

Dr. Friederich: These should be helped as far as possible by credit societies or by mortgage banks. It is a matter of charity in the case of people who are hopelessly indebted.

Mr. Devadhar: You have in your country electricity supply societies, etc. Do they also receive assistance towards the creation of block from State?

Dr. Friederich: No.

Mr. Devadhar: Are they not called industrial concerns?

Dr. Friederich: These are no special concerns. Agriculturists and all other people in a village join together to instal and work conducting wires and transformer stations. They enter into a contract with the electric generating company for the supply of current. The societies supply on this basis current to the people in the village.

Mr. Devadhar: You said State is willing to assist industrial concerns.

Dr. Friederich: I was only speaking of marketing societies and not of industrial concerns.

Mr. Devadhar: Have you a large number of wage-earners' societies?

Dr. Friederich: We are not in favour of starting special societies for wage or salary earners. We prefer to join all kinds of people together. We have societies for wage earners, for salary earners such as those founded by school masters or other officials living within a town. But we do not advocate them. The reason is this. If you join all kinds of people together money demand and supply can be beter balanced. One class of people need, for instance, money at a special time, another class at another time. The same with regard to the supply of surplus funds.

Mr. Devadhar: Was there a stage in the devolution of the agricultural population in your country when it was thought necessary by the State to give some kind of relief to agriculturists?

Dr. Friederich: There were, for instance failures of crops, of wine growers. They were given special loans by State banks through credit societies.

Dr. Hyder: Apart from the special rates offered by the Railways.

Mr. Manu Subedar: There are special rates to encourage local production and export thereof.

Dr. Friederich: I am not an expert as regards railway tariffs. I can only say we have preference tariffs.

Mr. Devadhar: You spoke about indigenous bankers yesterday. I have now in mind the case of a man who has got his debts. He is now trying to make up with the money lender. To help him sufficiently, provision is made in the Agricultural Relief Act; provided banks will help, he can get his debt to the sowcar discharged by taking advantage of this provision and others of the kind. But these have really not been found helpful to him. Have you any suggestions to make with regard to enabling the agriculturist to get rid of his past debts in as amicable a manner as possible?

Mr. Ramdas Pantulu: The Provincial Committees have said that some agency is coming forward to advance the money. It is merely a substitution of the security for the amount. If there is anybody to give him a ready payment to discharge his old debt, would you object? The Central Provinces Government advanced money similarly.

Dr. Friederich: I have no objection to advance money for discharge of old debts.

Mr. Devadhar: You would have no objection if Government were induced to do it?

Dr. Friederich: No. I think the Assembly would have to consider measures of this kind, and in case a majority is of opinion that loans should be given, I can have no objection.

Mr. Devadhar: This is not a case which can be dealt with by an ordinary society. This problem will have to be solved with very large financial assistance from Government and engineered, assisted or negotiated by a certain body. Taking the condition of affairs as it obtains here, you would be in favour of something of a loan?

Dr. Friederich: Yes.

Mr. Devadhar: In the beginning very few people understood co-operative societies and so we had to take Government help, but now a stage has came when Government assistance is not necessary. Government might set up some machinery.

Dr. Friederich: Yes, they might set up something like a Refunding Old Debts Board which we have had in our country.

Mr. Devadhar: We call them Arbitration Boards. So in your country where people were heavily indebted, the State came in to give assistance?

Dr. Friederich: In my country Government have had to deal with these questions especially after our inflation period. We saw a solution only in giving Deutsche Renten bank loans. In 1923 a bank long term was founded for stabilising our currency which gave 600 million marks out of its capital to agriculture, and about 240 million marks to traders and supply societies, so that agriculture had about 840 million marks out of the funds of this public bank. This money went from this special institution to our Reserve Bank (Raichobank) and from the Reserve Bank to the Apex Bank

and from the Apex Bank down to Central Banks and primary societies. This public institution for stabilising currency had to be dissolved according to an agreement with our former war opponents and in 1925 another institution was formed called Rentenbank Kreditanstalt, a credit institution of banks.

Mr. Devadhar: It is something corresponding to an apex agency?

Dr. Friederich: Yes, to refund old debts with the help of banks interested in agriculture. Money has to be supplied by issuing debentures. Debentures are issued not only in Germany but even in foreign countries and I can say that the largest portion of the working capital of these public institutions has been supplied by borrowed money from America.

Mr. Manu Subedar: Are these foreign debentures guaranteed in any way?

Dr. Friederich: They are guaranteed by mortgages' mortgage lands or debentures.

Mr. Manu Subedar: They are mortgaged on the assets. But whose guarantee is it? The guarantee of the State or of the Reichs Bank or of the public bank?

Chairman: The Renten bank Kreditanstalt is a State bank?

Dr. Friederich: It is a public bank, no State guarantee is necessary.

Mr. Manu Subedar: The debentures are issued on the guarantee of the State bank?

Dr. Friederich: Yes.

Mr. Devadhar: I want to understand the meaning of the word 'public'.

Dr. Friederich: "Public" means "State".

Dr. Hyder: The profit of a business may be plus or minus and is the difference between receipts and expenses, is it not? It may be a positive or a negative quantity, but it depends upon what you get out of this difference between receipts and expenses.

Dr. Friederich: Yes.

Dr. Hyder: I was wondering whether you had obtained through some source any arithmetical figures as to receipts and expenses relating to agriculture. Have you had any figures supplied to you by anybody in regard to receipts and expenses?

Dr. Friederich: No. In my country agriculture is at present not profitable, expenses are larger than receipts.

Dr. Hyder: You made a statement that Indian agriculture is not profitable. That may be so or may not be so, but as a banker you would realise that the whole question can be solved only if we can have these two items, receipts and expenses, expressed in figures. I have been a long time after these receipts and expenses, and I have served on many Committees, but we never came across any receipts or expenses. I quite realise the importance of these matters, but to bring the matter to a conclusion and to settle this question whether Indian agriculture is profitable or not, I want to know the receipts and expenses expressed in figures.

Dr. Friederich: I understand you want to know whether agriculture gets a net profit.

Dr. Hyder: I am not comparing this country with another country. Before we are able to do so, we should have these items expressed in arithmetical figures. Has anybody given you these figures?

Dr. Friederich: No. We made up our minds according to our experience and facts read in books. I read, for instance, a book by Professor Zakir Husain on agricultural constitution in India.

Dr. Hyder: I could quote to you a passage from Darling but I do not like to go to that extent. It may always be a fallacy, but I would like to discover the facts and from those facts draw conclusions. Here is a general proposition supported by general principles. The surest way to settle that business is to get the facts and the facts are those expressed in mathematics, those relating to receipts and expenses. I can give you my own experience: we had this matter coming up in the Taxation Enquiry, in the Agricultural Commission and here we have this on the Banking Enquiry. The facts from which conclusions have to be drawn are not there. The general principles are there, they will not carry us far.

You recommend a certain policy to be followed by co-operative credit societies and you refer to debit and credit rates. Are debit rates rates on deposits or rates on loans?

Dr. Friederich: Debit rate is the lending rate, and credit rate is the borrowing rate, the former on loans and the latter on deposits.

Dr. Hyder: You recommend a policy and you say that it is wrong to start with low credit rates in order to get low debit rates. Would it be wrong to have low borrowing rates in order to get low lending rates? It is a question of ordinary economics; that is to say, taking the supply and the demand price, do you find that there is any scarcity of funds?

Dr. Friederich: According to the statistics supplied to me with regard to primary societies, there is scarcity of funds.

Dr. Hyder: Your impression is that if the deposit rate were high, more deposits would be attracted?

Dr. Friederich: Yes.

Dr. Hyder: If you keep your borrowing rates high, you would have to keep your lending rates high, unless the expenses in connection with the management of the local bank were nil. Unless the State stepped in and said that they would undertake the expenses, the two rates would always have a tendency to be apart from each other and they could only be equal on the supposition that there were no expenses of any kind whatever in connection with a co-operative credit society. I submit to you that unless this position arises, if we had high borrowing rates, we should have inevitably high lending rates.

Dr. Friederich: Primary societies have now a lack of capital. Moneylenders charge rather high rates of interest and co-operative societies charge rather low rates. To take a loan from a primary society is much cheaper; on the other hand, moneylenders charge from 12 to 30 per cent. and make a profit. You have this difference between the rates of interest charged by moneylenders on an average and the rates charged by societies. Even

if the societies increase their rates by say, 3 per cent., their lending rates are on an average much cheaper than the lending rates of moneylenders. The societies should, I think, allow this 3 per cent. for deposits more than they do at present and I am convinced that a part of the capital of the moneylenders would get to the primary societies. They would look after investment in primary co-operative credit societies because it would be a profitable investment. Where primary societies get enough capital in this way, they can lower their credit rates, in order to restrict the increase of deposits to that amount which can be invested profitably.

Dr. Hyder: This is a question of the rates in relation to the volume of either lending or borrowing and I put it to you that if you start from this position, *i.e.*, taking a high rate on deposits, you must undoubtedly attract a large volume of deposits, but inevitably you will have to keep the lending rate at a high level, unless the expenses were nil. If you start with a high rate of interest, undoubtedly the moneylenders would come in. Everybody's money would come in, and because the local village banks have certain duties imposed on them the capital entrusted to such a village bank is secure. But the primary consideration for the peasant is what the bank is going to charge.

Dr. Friederich: I was told by an Indian the other day that it would be amazing how my country has been developing since the inflation of 1923. It has been on the lines marked by me that we have been building up our economic srtucture and our co-operative societies in Germany.

Dr. Hyder: We come back to the point put to you by the Chairman, namely, that it is a matter of the quantity of capital that is forthcoming.

Chairman: As I understand the position, the present policy regarding these co-operative institutions is something like this: the primary society obtains its funds partly from deposits and partly from central banks. It is possible that the amount it gets from central banks is larger than the amount it gets from deposits. The effect of that, as Dr. Hyder points out, is in the direction of lowering the lending rate. Your proposition is that more money should be obtained locally and for this purpose the borrowing rates of the primary society should be increased, so that money now in the hands of moneylenders may flow into the society. Have you at all considered to what extent the borrowing rate, *i.e.*, the rate paid on deposits, will have to be raised to make that policy effective? The moneylenders, so far as we have seen from the Provincial Reports, get something like 18 to 24 per cent. In order to attract that money, the rate on deposits will have to be raised, not by 1 or 2 per cent., but probably by 10 per cent. or even more. That was Dr. Hyder's point. Therefore, it will have an inevitable effect on the lending rate. The present position is that central banks obtain money from deposits at central stations where cheap capital is more readily available; they may also get part of their capital from apex banks, these being in the centre of the province cheap capital is much more readily available. You want to reverse the process.

Dr. Friederich: We must consider the risk which money-lenders take in lending their miney all kinds of people. The high rate of interest is to a certain extent an equivalent to the risk. Where there is no risk, the rate is lower. Therefore, I am of opinion the credit rate of a society will not have to be raised as much as indicated in order to get funds of money lenders.

Mr. Manu Subedar: Have you considered the relative volume of the existing funds which they get centrally at a cheap rate and the funds which they will attract by this new method of raising the rate locally, and the advantage and disadvantage? They cannot raise funds at two different rates. If they raise the deposit rate by 3 per cent., they would have to give the increased rate on deposits all round and they would lose the existing benefit. It all depends on whether it is worth while. Have you considered the likely volume of local borrowings?

Dr. Friederich: I have taken all points into consideration and I consider my proposal as the best basis for developing your primary societies.

Mr. Manu Subedar: You said that moneylenders would come to deposit with the primary societies if the rate is increased by 3 per cent.

Dr. Friederich: At some places more at others less capital would be attracted.

Mr. Manu Subedar: Supposing we told you that the gap between the society's borrowing rate and the rate which moneylenders are realising is not really 1, 2 or 4 per cent., but much more, would it not be futile to take action in the direction suggested by you?

Dr. Friederich: To raise the credit rate to a very high percentage is out of the question, but I think the proposal is made from experience and it should be tried.

Mr. Manu Subedar: Are there any districts in which it is possible.

Dr. Friederich: I am quite convinced that a trial will bring success.

Dr. Hyder: I do not want to entirely destroy your proposal and that is not the spirit in which I, as a member of this Committee, look upon the proposal of experts from foreign countries. In so far as your object is to raise the rate slightly in order to attract deposits from local people, I agree with you. But the difficulty is this: take for instance the prosperous canal tracts in the Punjab.

Dr. Freiderich: Of course it may be done only in districts where you have hope of success, not in districts where you know it is hopeless. I am always for individual policy.

Chairman: But then the policy will have to be directed by the Apex Bank. If some Central authority finds that this is a feasible proposition and will not tend to raise fundamentally the interest rates, I have no objection to the policy, but the fundamental aim of the policy should be to gradually bring down rates of interest at which money is lent out to the agriculturist. Will you accept that proposition? ,,

Dr. Friederich: Yes, Sir.

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Dr. Friederich: I have prepared an appendix to my memorandum in order to show that the proposals I have made with regard to your primary co-operative societies central banks and provincial banks have not been invented. I took them from the Provincial Committee's reports and from facts collected in India. I have only given the main references.

Chairman: The particular matter we are discussing is not included in one of your points.

Dr. Friederich: No, that is a special proposal which, in our opinion, is necessary for developing the co-operative movement in this country.

Chairman: Therefore, so far as this particular proposal goes, it is not based on any suggestion appearing in the report of any Provincial Committee.

Dr. Friederich: No. It is a suggestion made by experience of my country. After the inflation of our currency nearly no money was available for agriculture. Therefore, we had to make all possible endeavour in order to get deposits. Now, after having had success, this policy has been abandoned and we have returned to the ordinary policy. Our Reserve Bank is now against this policy because we have nearly sufficient capital and we are pressed to lower the borrowing rate in order to obtain a cheaper lending rate. If I may be allowed, I shall give you a short explanation. At the present stage of co-operation in India, your central banks and provincial banks have sufficient money, so that these banks have to invest large sums in Government securities, which caused losses by depreciation. I know this condition, but nevertheless, I made my proposal having regard to the following consideration: you have money supplied to provincial and central banks, if my policy is followed, you get a further money supply to primary societies. I may be right or wrong, but one thing is certain, that if you pay a higher price for goods, you always get a larger supply, therefore, the co-operative societies will get more money. Up to now you had only these two sources of supply, the provincial and central banks, in future you will get a third source, namely, the primary societies, and, therefore, the assistance rendered to co-operation will increase. In consequence, according to the law of supply and demand, money will become cheaper. I am ready to explain the details. I have thought over my proposal several times with regard to the conditions in India, I have thought it over again this afternoon, but I must stick to my proposal.

Chairman: May I make some observations? You fully admit that this arrangement would have the effect of raising the lending rates of primary societies. You said that this arrangement was adopted in your country when capital was not available. If capital is not available, it must be attracted by increasing the deposit rate, though if capital is absolutely non-existent, an increase in the deposit rate by itself would not attract capital. Assuming that the arrangement was necessary in your country at a stage when there was dearth of capital, the object of adopting it was to obtain capital at higher rates of interest. You admitted that when conditions changed, the process was abandoned. What is the position in India? The primary societies are lending at certain rates. You admit that they are getting the whole of the capital required for their purpose?

Dr. Friederich: Not the whole capital.

Chairman: You admitted that the co-operative structure as a whole is investing money in Government securities. Taking the co-operative structure as a whole, the primary societies are obtaining all the money they want, *i.e.*, all the money they can usefully lend against proper securities or against the maximum credit they can give to individual members.

That is indicated by the fact that taking the structure as a whole large sums are invested in Government securities. I think either you or Mr. McDougall or both drew attention to that feature of the situation. Therefore, the present is not the time to take any measures which would have the effect of raising the interest rates against the borrowing peasant. As matters stand, in India even an increase of one per cent. in the lending rate to the agriculturist will hit him very considerably. The point is where is the need for it. On the other hand, Mr. McDougall in his paper has suggested that certain sums of money which now go into the coffers of Government should be made available for financing co-operative institutions. I shall discuss this specific proposal with him when the time comes. To my mind the only advantage of that proposal is a further cheapening of the interest rates. It is the cheapening of interest rates to the agriculturist which is fundamental. Assuming that the rate is now 10 per cent. and it is reduced to 9 per cent., even the one per cent. reduction to the poor peasant of India counts for a good deal. On the other hand, if we are to pursue your proposal and raise the rate of interest from 10 to 11 per cent., I should think that this will affect the peasant very considerably, and unless it is proved to be absolutely essential, I for one would hesitate to advocate the proposal. There is no need for it at the present moment, because taking the co-operative organisation as a whole, money is adequate. When more money is required, it will be time enough to consider how that money is to be found. The money may have to be found as Mr. McDougall has suggested, by Government, not by his compartmental system which even authorities in England would not accept, but by means similar to that adopted in England and also in America. The whole object in England also was to reduce the rate of interest which otherwise the unfortunate agriculturist would have to pay. The relief to the agriculturist is the fundamental idea of reducing the interest rate, and the proposal to my mind goes absolutely against that fundamental idea.

Dr. Friederich: I am not convinced. I may say that I am also aiming at the same purpose which you are aiming at.

Chairman: I have placed before you all my arguments and, therefore, on this matter you and I will have naturally to differ. So far as our Committee is concerned we shall discuss the subject amongst ourselves and if the majority agrees with you and disagrees with ue, then it will be in your favour. The fundamental issue is how is the burden of interest on the agriculturist to be reduced. And the present arrangements have been brought about after a very close study of the situation of this country by expert committees, including if, I remember aright, thh Maclagan Committee. This has been the result of experience gained by people who know all the ills of this land, people who have come into intimate contact with the needs of the country. And now when you base your convictions after going about the country for about 3 months and come to an entirely different conclusion, I must say, we agree to differ.

Dr. Friederich: My point is that the primary societies have not got enough means to satisfy the needs of their members and so it is that I want to tap other resources and my whole thoughts have been concentrated on that point. That is why I suggested that the rates of interest on deposits with the primary societies should as far as possible be increased.

Chairman: I fully realise that by raising the rates of interest on deposits you can attract more capital. The real point, however, is whether that proposition would be in the best interests which you have at heart in connection with this co-operative financing arrangements. So far as we know these primary societies do not suffer from want of capital, *i.e.*, the loanable capital. It is true that they must meet all the demands on them but the demands have first to be scrutinised. There are limits imposed on the amounts of loans to be given to any particular individual. Surely you would not advocate the grant of reckless loans. In fact, in the course of examination of other witnesses by our Committee, a doubt actually arose in our minds whether even now these advances to members of primary societies are sufficiently scrutinised from the point of view of security behind it and certainly the conclusion which we arrived at and supported by the Committee was that at the present moment the movement is not suffering from dearth of loanable capital. That being so your suggestion does not give any positive benefit but it results in raising the rate of interest to the unfortunate peasant and to my mind that is a fatal objection to the proposal and the present arrangements have grown up not casually but evolved as a result of years of experience. The matter has been examined by the Provincial Committees and they have all said that this is the best arrangement under the present conditions.

Mr. Ramdas Pantulu: In fact the tendency, of late, has been—apart from all arguments put forward by non-official co-operators—for the Registrars of Co-operative Societies to discourage the primary societies from accepting deposits from non-members. I might in this connection read what Professor Kaji has said in his book on "Co-operation in Bombay":—

> "Non-members' deposits show the confidence that outsiders feel in societies and non-members do not hesitate to extend periods year after year. But when societies become negligent and accumulate arrears, they raise a hue and cry suddenly. Not only is the credit of the societies affected, but practical difficulties in regard to the future finance of the societies by Central Banks, arise. Non-members' deposits are, therefore, being discouraged of late, and the result can be seen from the fact that the percentage of such deposits to the total working capital has gone down from 17 in 1923 to 11 in 1928. The best course would appear to be to frame and enforce a Rule prohibiting primary agricultural societies from accepting non-members' deposits unless satisfactory arrangements for fluid resources, approved by the Registrar, are made".

Chairman: That is another point in favour of my argument.

Mr. Manu Subedar: Subject to correction, I might say that there is at present a certain definite relationship between the rates at which people take deposits. The provincial organisation takes deposits as it likes. The central banks are not allowed to take deposits at any rate more than the rate at which they receive their resources from the provincial bank and I also understand the primary societies are not allowed to borrow at rates higher than the rates at which they get their funds from the central banks. There is, therefore, a definite system adopted in India after many years of

experience; and under your scheme it might happen that the deposit rates offered by societies should be actually higher than the rates at which they borrow from the central banks. Is that not the position?

Dr. Friederich: I agree. I might say that primary societies are the germs of co-operation and I should go even so far as to say that they should be permitted to accept deposits at 1 per cent. more than they can get loans from the Central Bank.

Mr. Manu Subedar: Therefore, you would relax this rule?

Dr. Friederich: Yes.

Mr. Manu Subedar: At present everything is done by rules and regulations. While things are left to men who are not possessed of a very high standard, they have naturally got to be directed from the top and as I understand it the whole idea of the central banks are nothing but federations of societies. So then, if you think of placing some discretion in the hands of primary societies, you should first have the requisite qualified staff to manage them.

Dr. Friederich: That is quite true.

Mr. Manu Subedar: But there may be practical difficulties apart from those pointed by the Chairman.

Dr. Friederich: I agree with your considerations, but it is the duty of auditors to guide the policy of these societies with regard to the rates of interest.

Mr. Manu Subedar: Let me now come to your other point where you say that you expect the moneylenders' money to come in under your scheme. Supposing some of us were of opinion that the moneylenders' money would not come in under your programme by your offering a few per cent. more than those allowed for deposits now, then what remarks do you offer?

Dr. Friederich: If it is impossible to get more money by raising the credit rate then I admit that my scheme is not workable or wrong.

Dr. Hyder: Let me tell you that there are three classes of people living in the village, (1) members of co-operative societies, (2) the moneylender and (3) the agricultural moneylender. Mr. Subedar has already dealt with the question of the moneylender. I shall now take up the other two points. Do you know what the agricultural moneylender is after? Let me tell you that his eye is only on land. So that whatever the rates of deposit may be you will not be able to attract money from him. Therefore, your source is dry there. Now with regard to the members. Let me say that there is no use raising the interest rates until the habits of thrift, efficient methods of agriculture and education are imparted to them. Apart from these considerations I would ask you to look at these aspects from the theoretical aspect of it. No doubt it may be technically true that you might be able to attract a little more.

Dr. Friederich: In regard to the considerations now made, may I ask a few questions? Why are the agricultural credit societies in this country not able to finance the biggest percentage of agriculturists for their current needs. I have actually found it in the provincial report that the co-operative movement has touched only a very small percentage of the people. I naturally answered this question considering that there is a need for more funds by the local credit societies, and I thought the

best way of solving the problem would be to increase the deposit rates to attract more capital which could be utilised in financing the needs of agriculture.

Chairman: I think I may be able to answer your points. Your first proposition that the present co-operative societies have touched only a small part of the agricultural population is undeniable but the reason of that is not that there is dearth of capital. Therefore your first assumption is not wholly correct. The reasons are manifest. They have been brought out very largely in the Report of the Royal Commission on Agriculture who studied, as it were, the human aspect of the problem very fully. The reasons, arrived at, if I have to summarise them, are the want of education and want of workers, both honorary and official; and in the one province where improvements have been possible in that direction, the Punjab, a larger proportion of the agricultural population has already been touched by the movement. That it is not suffering from lack of capital is apparent from the fact that all these apex banks have large sums of money invested in Government securities. If it were possible for them to issue larger sums in the shape of loans, they would have done so, but the fact is that they cannot lend more to societies because the existing societies cannot lend more to the existing members without overstepping the margin of safety. Perhaps, if it were possible to establish themselves at places where there are no societies at the present moment, more capital would be needed. But the reason for the fact why more societies are not established is the dearth of workers and the want of education. The fact is that the agriculturist himself does not understand the full value of co-operation. You yourself have noticed the fact that these banks have invested large sums in Government securities and have suggested that they should be used for the granting of larger advances. But how can they do it? In the case of the existing primary societies if they overstep the limits of caution to which they resort to at present, the result would be that there will be many outstanding debts which cannot be repaid. That position can only be improved by providing other things other than capital. Therefore, I come back to my fundamental proposition. I assume that if more money were made available by granting higher deposit rates and if it were permissible for primary societies to lend money broadcast without looking after any security, it might do it. But that would mean the deterioration of the movement as a whole. It will only add to the number of moribund societies and also add to the number of bankrupt societies.

Dr. Hyder: My own questions are directed towards the structure, principle and management of co-operative societies. With regard to the structure of the co-operative society there are three bodies which you have mentioned in your paper; general meeting of members, managing committee and the supervising board. May I ask who is to determine the credit worthiness of each member? Is it going to be the general meeting of members or the managing committee or the supervising board?

Dr. Friederich: It should be the managing committee and the supervising board.

Dr. Hyder: The whole point of the co-operative society is this. That it should consist of people who are neighbours who know each other. If the credit worthiness were to be determined by the managing committee and the supervising board, then the benefit of free and open discussion by the whole body of members would be lost. Granting and

fixing credit are two different things. Fixing may be done in an open meeting. But granting is actually the work of the executive who may not grant up to the amount fixed.

Dr. Friederich: There is only one point to be considered. There is, for instance, a village of about 300 people. I really cannot understand that the members of the managing committee do not know the position of the other members. In my country in a village all people know one another and members of the managing committee should know everybody thoroughly.

Dr. Hyder: The reason for my proposal is this. The members of the managing committee will have the benefit of the criticism of other members. You total up this. When a member applies for accommodation, it is for the executive to decide whether credit up to the limit fixed should be given. You say that the thing is done at a meeting of the managing committee and not at that of the general body in your country. Is that the system?

Dr. Friederich: Yes, it is so everywhere.

Dr. Hyder: What are the functions of a general meeting?

Dr. Friederich: It has to consider the balance sheet, auditor's report, report of the managing committee, report of the supervising board, election of members to the managing committee and the supervising board, also of action to be taken in case members are not satisfied with the work of the managing committee or the supervising board.

Dr. Hyder: What of the size of the society and the managing committee?

Dr. Friederich: Managing committee 5; membership of the society varies from place to place, it is between 50 and 100.

Mr. Devadhar: All pursuing the same occupation?

Dr. Friederich: Mixed.

Dr. Hyder: Our ideal in this country is that the membership must be small. The smaller the number the greater the chances of success, more efficiency, more knowledge, more experience and more education in the use of credit.

Dr. Friederich: The bigger the number of loyal members, the greater the efficiency.

Dr. Hyder: You would admit that in the government of any business, a bank or a trading company, there must be a limit to its size determined, firstly, by the capacity of the head to the management, and secondly, by the konwledge that people have. Between these two limits lies the proper number.

Dr. Friederich: May I correct my statement? In 1913 the average number of members of our credit societies of the biggest union of agricultural co-operative societies in Germany was 100; in 1928 the average number was 112, the highest number (Province—Westphalia)—was 213, and the lowest number (Province Nassau II) was 69.

Chairman: These are unlimited liability societies. It may be all right in theory, but in India you can not persuade members to accept in practice the idea of unlimited liability. If they were joint stock concerns, I for one would have agreed with you that there must be no limit to the maximum number. It is bound to depend on how many people agree to share among themselves this unlimited liability.

Dr. Friederich: The biggest percentage of societies of which I gave the average number of members, has unlimited liability.

Chairman: I admit that, but what is the state of education in Germany and here among the corresponding classes of people.

Dr. Hyder: You have in a village in your country the schoolmaster, some retired official, some businessman and then what you may call the head of the village. The difficulty we have is that the message is there, but it has not reached the people. Our priest, our schoolmaster, our retired military man, our businessman, our headman, are out of the show. There our chief difficulty lies.

Dr. Friederich: That is why I strongly stressed the point of education and the training of secretaries and treasurers.

Dr. Hyder: Our schoolmaster is shifted from one place to another. The headman is mostly the head of a faction at loggerheads with other factions. The retired military man is a man of influence, has a consciousness of better life being possible. The businessman, unfortunately, is after the cultivator, so that in management lies our trouble.

Dr. Friederich: For supplementing my statement I may tell you that on tht 1st January 1930, 88 per cent. of the German agricultural credit societies had unlimited liability.

Chairman: I should like to know what proportion of the members was literate because that is a very pertinent factor when we compare conditions in India.

Dr. Friederich: 100 per cent.

Dr. Hyder: There lies our difficulty.

Mr. Devadhar: The main object is that agriculturists should get more money. The general rule that is followed here is to estimate the assets by inspectors or by departmental officers and loans are not granted beyond a fraction of the estimate of assets: in Madras it is 1/8th. If we want more money to go into the hands of agriculturists at low rates of interest a change should be brought about in the percentage or fraction that is observed by banks. The best thing is to have the proportion raised. Do you think that is right.

Dr. Friederich: Something must be done to remove the present state of affairs.

Mr. Devadhar: In individual cases where there is a need which is far beyond the limit laid down for a member or a society, on special representation by the managing committee the Registrar's sanction is given tc the advance.

Dr. Friederich: Then you have an ideal position in the co-operative movement in this country. From my study of the provincial reports on co-operation I found that the provincial committees were quite convinced that something was wrong in the co-operative system and I made my proposals accordingly, because I have been of the same opinion. I see more and more that, I suppose, according to your opinion it is not necessary to make any change.

Chairman: None of us hold that view. The point is this. In regard to the provision of credit facilities, the information before us, which is the information in the provincial committees's reports, is that the movement is not suffering from lack of funds, but from causes that were

mentioned by Messrs. Devadhar, Hyder, Manu Subedar, and Ramdas Pantulu, with his 15 years experience in this movement. The provincial committees also have mentioned these. The evil is the inefficiency and selfishness of many of the managing committees and a lack of understanding of co-operative principles by the general body of members.

Dr. Friederich: That is a matter of education.

Chairman: A remedy which will have the effect of raising the rate of interest against the peasant is not to our mind the remedy. The remedy you have already mentioned in several parts of your paper, and so has Mr. McDougall. The remedy lies not only in education of the peasant himself, but also in the provision of workers both honorary and official. Here the only proposition is: Is there a dearth of capital and is it necessary to adopt this proposition which will undoubtedly have the effect of raising the rate of interest which the agriculturist gets from the primary society? In fact many of the provincial reports advocate that steps ought to be taken to reduce the lending rate to the peasant, and when we read the provincial reports and picture to ourselves the situation, it seems to be the direction in which relief is required. Therefore, when you put in the proposition that higher rates should be offered to attract deposits, I was considerably puzzled. But the other points you referred to—want of education, want of self-consciousness—we all admit they are all there, and they are things which require remedy by Government action, but that is not a question of provision of capital.

Mr. McDougall: I am not in favour of increasing the interest unduly. But if they take deposits at a slightly increased rate of interest would it not be for the benefit of the whole movement?

Chairman: Money borrowed from depositors is not its own capital, it is borrowed capital and the people who deposit the money may be non-members. If more members brought in money I agree it is an advantage. Money deposited by non-members is certainly, from the point of view of the co-operative movement, identical with if not at a lower level than, money borrowed from a central bank.

Mr. Devadhar: I can tell you my own experience round about Poona. In the beginning some societies were started by me and others also under my direction. The impression got round that there was very good supervision and people advanced money. I negotiated for certain loans, but after some time I withdrew. These societies offered a higher rate of interest than the bank would allow on deposits and something like Rs. 75,000 were obtained at something like 7 per cent. from my friends with whom they came into contact, through me at the earlier stage, the bank rate for deposits being 6 per cent. The societies thought it was cheaper for them to get deposits at 7 per cent. because the bank would charge them 8 per cent. Owing to bad management the societies failed, and these depositors came to grief who if they had deposited their money in the central bank would not have lost it.

Chairman: That point of management Dr. Hyder mentioned.

Dr. Friederich: My recommendation should be regarded as relating to the raising of money required by the co-operative movement, especially for sale and marketing, in the future.

Chairman: There are other considerations unfortunately. It is not only a question of raising money. As Dr. Hyder and Mr. Devadhar pointed out, the primary societies are not at present equipped to handle the deposits from non-members, and even in that connection the acceptance of your proposal would lead to the bankruptcy of many of these societies. I am simply following Mr. McDougall's ideas. If it was necessary to have more funds for the purposes to which you refer, *viz.*, marketing, sale, etc., and if funds could not be raised and supplied by central banks and provincial banks who are better equipped to handle these large masses of deposits, then the only solution is for Government to step in and come to the assistance of the movement as has been actually done in England to gain the same object by passing the necessary legislation.

Dr. Friederich: I understand, of course, that the policy of getting deposits is pursued on business considerations. I stressed on the point management on business principles. That may be applied to this question too. With regard to deposits from non-members I say on page 4 that members should on principle receive a somewhat higher rate of interest on deposits than non-members.

Chairman: How are you going to catch the money-lender? I think we understand each other. Let us leave it at that.

Mr. Devadhar: You would have the credit worthiness of a credit society or a member assessed by the managing committee and the supervising board?

Dr. Friederich: To assess the credit worthiness of the members is a matter for the managing committee and the supervising board. In my country they know the financial posi ion of all the members. The mortgages of people are recorded in a register which is open to the public and kept by the courts. On one side the assets and on the other the liabilities of the members have to be considered.

Mr. Devadhar: What is the relation of the amount of money actually given to an individual or collectively to a society to their assessed credit?

Dr. Friederich: We have in this connection no rules. The managing committee and the supervising board have to assess the borrowing power of the members on their own responsibility. That is the first point. The second is, can any good security, or collateral mortgage be given? In this case credit to a certain extent can be granted.

Chairman: Let us take a society of 50 members. Member A's net assets may amount to, say, Rs. 1,000. Is there any rule in your co-operative societies that the credit worthiness of that man should be assessed at a certain percentage of his correct net assets?

Dr. Friederich: No rule. No union has given any instructions with regard to this assessment. If you issue any rules, a society which makes a loss by granting credits may say, "we have been advised like that".

Mr. Manu Subedar: Do you insist on the lodgment of the securities?

Dr. Friederich: Good sureties.

Mr. Manu Subedar: That is not security.

Dr. Friederich: We have a special kind of surety: in case the debtor is not willing to pay on the due date, then you can go to the surety and demand payment without having proceeded against the debtor.

Ch. Mukhtar Singh: It is likely that in some cases the member may get more than his assets.

Dr. Friederich: That may occasionally happen, but not usually. All points, *e.g.*, assets, character, sureties, securities and so on have to be taken into consideration. In these agricultural societies bankruptcies are very rare.

Mr. Devadhar: I think it is mostly due to a higher percentage of education and to good management.

Ch. Mukhtar Singh: I think it is mostly due to the fact that the co-operative movement is too shy to advance any money to the cultivator. There is no dearth of capital in the movement, but the cultivator never gets enough for his needs. I want to understand how you get over this difficulty in Germany. Here you advance money to the extent of one-third of a member's assets. Have you any rule in Germany to the effect that he will not get more than a fixed percentage of his assets and is it in operation in practice?

Dr. Friederich: All points are weighed before an advance is given. If a man wants Rs. 300, the managing committee or the supervising board can say that he should be given only Rs. 200. The amount is usually advanced on surety or on collateral mortgage.

Ch. Mukhtar Singh: But in any case you do not insist on any hard and fast rule that the man should not get more than a certain amount.

Chairman: He would not be able to obtain a surety in India.

Ch. Mukhtar Singh: Sureties are there.

Mr. Manu Subedar: Is it a fact that in the co-operative movement in India security of land is not taken?

Mr. Ramdas Pantulu: It is taken. In most provinces there are both kinds of loans, surety loans and mortgage loans. They are very largely mortgage loans, but in a particular locality where the surety is a substantial man and the surety himself does not borrow, the panchayat or the management has the discretion to give a surety loan.

Chairman: Let me make the point clear: in the case of a surety loan, even the maximum limit does not apply, the managing body can settle the amount of the loan irrespective of one-third of the assets. Is that so?

Mr. Ramdas Pantulu: No. A maximum borrowing power is fixed for each society and also for individuals either in the bye-laws or in the rules, in some provinces in the bye-laws, in others in the rules. The society says to the individual 'I will lend you Rs. 500, or Rs. 1,000 or Rs. 3,000'. In fact in some societies the maximum borrowing power is Rs. 50,000. The Managing Committee have the discretion to advance a loan either on sureties or on mortgages. If they feel that the sureties are not sufficient security, they take a mortgage registered in the usual way, but our societies are exempt from court fees and stamp fees.

Chairman: That answers Mr. Subedar's question.

Mr. Manu Subedar: It does not answer my question. We never discussed this question amongst ourselves and had no opportunity of exchanging our views. My impression is that a society lends to a member who has got lands and who was a good member at one time. The loan continues, and in the meanwhile this good member, having borrowed

from the society, also goes out and mortgages his land to a moneylender. Such a thing is inconceivable to me on banking principles. If I were a creditor, I would sit on the assets of the man until my money is paid and I would not allow him to go out and borrow. I was informed that such a thing does happen.

Mr. Ramdas Pantulu: It is of course open both to the principal debtor and the mortgagee to go and mortgage the lands outside. The whole safety of the movement consists in mutual knowledge of the transactions. As soon as a man mortgages the property, the panchayat will take prompt steps to call up the loan. It may in some cases happen that owing to the property having been mortgaged the society will lose, but there is the unlimited liability of all the members and, therefore, everybody will see that the man pays up the loss. I have not come across a single case in which a depositor has lost a single pie during the last 25 years by the fraud of any member. Even in liquid societies people have paid up to the last pie. Not a single depositor has come to the public and complained that he has lost a pie. I quite agree that it is open to him to mortgage and defeat the society.

Mr. Manu Subedar: In the case of unlimited liability of the other members it is the other members who pay.

Mr. Ramdas Pantulu: The other members are called upon to pay only ultimately when the society is liquidated. The unlimited liability in practice is the ultimate contributory liability when the society is liquidated. So long as the society is working, the other members are not called upon to pay a single pie. It is in their interests to see that the man pays. They would bring such pressure to bear not only on the principal debtor but also on the surety that the money is paid up. But of late whenever there is the slightest doubt about the solvency of a man, the societies are resorting to mortgage loans. In Madras 80 per cent. are mortgage loans and 20 per cent. are surety loans. Non-officials as well as officials are discouraging mortgage loans as there are many difficulties in a mortgage loan under the Transfer of Property Act. A mortgage loan is very difficult to recover; so, as far as possible surety loans are given for short terms as these are easily recoverable and are more liquid. But invariably in long-term loans mortgages are taken.

Mr. Devadhar: Up till now great stress was laid upon what we call personal security as the best means of getting money in the last resort on the basis of unlimited liability. But now in our province also we are advised to take land mortgages.

Dr. Friederich: When I referred to security, I implied both surety and collateral mortgage.

Mr. Devadhar: With reference to your suggestion (3) under 'Central Co-operative Banks', I should like to ask whether you would be in favour of branches being started instead of having one central bank for each political district.

Dr. Friederich: I had in mind the considerations referred to in the reports of Bengal, Bombay and Bihar and Orissa, please see my appendix. I am personally not in favour of sterling branches, but I should prefer the starting of pay offices.

Chairman: Are you in favour of a co-operative society in a particular village starting a pay office in another village?

Dr. Friederich: No, I am not in favour of starting pay offices by local societies. Even in the case of villages societies managed by full time employees and comprising neighbouring villages, I am not in favour of pay offices.

Chairman: You are for "one village, one society"?

Dr. Friederich: that is the ideal, but it is not sound in case of a very small village. In Bengal there is a rule under the Co-operative Societies Act prescribing that a society should not have more than 50 members. If a society would get, say, 70 members, they have to start a second society in the same village.

Chairman: I see the point, but I was only trying to find out what you meant by pay offices. If you do not want that one society should cater for the requirements of more than one village, there is no need for a pay office.

Dr. Friederich: I spoke of central banks.

Mr. Devadhar: If you intend to have a political district of the type we have here in which there are 800 or 900 societies and one central bank, our experience is that it is of great advantage to the members of the societies. It is better from the educational, financial and repayment point of view.

Dr. Friederich: I have no objection against branch banking if it is profitable, but in case branch banking is too expensive, would it not be better to start pay offices? One big society or urban society can have a pay office of a central bank. There a local society can pay in money on credit of its account with the Central Bank, or it can get money from such an office.

Mr. Devadhar: Are they receiving centres or distributing centres?

Dr. Friederich: Both.

Mr. Devadhar: Then it becomes regular banking.

Dr. Friederich: At a branch you find the accounts of every society within the area of operations and the headquarters is the place where the statements from branches are collected.

Chairman: In common parlance a pay office only means a disbursing office.

Mr. Lamond: Yes.

Chairman: That was the reason why Mr. Devadhar asked you this question; what you contemplate really is a branch bank on a small scale.

Dr. Friederich: A sub-office.

Mr. Devadhar: At sub-offices you receive deposits. Branch offices receive deposits and give loans as directed by the head office. I can tell you from experience that it is found, administratively, exceedingly convenient to have a branch office.

Chairman: It is only a question of words, though it is different in banking parlance. A branch bank wants a better staff than a sub-office. In your case the question of staff does not arise, because you have mostly honorary workers.

Mr. Devadhar: We have paid men also.

Mr. Ramdas Pantulu: We have in Madras what are called out-agencies which disburse and collect, but do not tap deposits.

Chairman: Your objection to having regular branch banks, I take it, is based on the score of expense?

Dr. Friederich: Yes. In case the expenses are relatively small, I have no objection to branch banking. In my country we found branches always expensive, so that we have established only sub-offices.

Chairman: It is only a question of degree. It may be a sub-office today, but with the growth of business, it may be found more profitable to make it a branch bank.

Dr. Friederich: Perhaps we may change the words 'pay offices' into sub-offices or branches.

Mr. Manu Subedar: In Germany you have succeeded in developing the co-operative system to such an extent that the primary society was self-supporting before the War. Let us not take the present disturbed conditions.

Dr. Friederich: Yes.

Mr. Manu Subedar: That means that the primary society received its deposits from its members and from others in the place and these deposits were more or less sufficient to meet the needs of its members.

Dr. Friederich: Yes, usually.

Mr. Manu Subedar: That postulates two things, one is that there is a surplus savings in the community, and secondly, that the needs of the members are perhaps not so extensive as in India. Could you give us a general idea as to what percentage of your members are borrowers?

Mr. Manu Subedar: If you take a particular pre-war date, say, 31st December 1913, would you have a very large number of members as borrowers or would you have some borrowers, some depositors and some neither?

Dr. Friederich: The latter would be the case. Mostly people join a society as members only in case they are in want of money.

Mr. Manu Subedar: But there are a certain number of members who are free from debt to the societies at any particular time?

Dr. Friederich: Yes.

Mr. Manu Subedar: Have you compared the position of India in this respect and found that there are a large number of members who are indebted prior to their joining the society? Therefore, the point raised by Ch. Mukhtar Singh, arises, *viz.*, that the agriculturists do not get all they need.

Dr. Friederich: Yes, they are in an unsound position. Therefore, I am very much in favour of getting deposits from people who have money to spare and who can join as members. In most societies members get a higher rate than non-members, so I want also to attract creditors to your societies.

Mr. Manu Subedar: Have you considered the point of view which Mr. McDougall has raised in his paper, namely, that agriculture must

be a profitable industry? If it is profitable, the need for borrowing would be less and small surplus may actually constitute deposits.

Dr. Friederich: Yes, I have considered it and, therefore, I stressed the point too.

Mr. Manu Subedar: Therefore, do you not think that the progress of the co-operative movement is hung up with the general question whether agriculture is profitable or not?

Dr. Friederich: The future development of co-operation in this country will largely depend on whether you have profitable agriculture or not.

Mr. Manu Subedar: We have heard so much about education. I put it to you whether in your opinion it is not the case in India that people who join a society with unlimited liability do not understand in all cases what they are laying themselves in for and whether the spread of education may not have the reverse consequence of actually reducing membership rather than increasing it.

Dr. Friederich: I have recommended that agricultural societies should be allowed to have limited liability. Your point may arise in a village society, therefore you must be able to transform it into a limited society.

Mr. Manu Subedar: Would you not be assisting the co-operative movement by having a parallel organisation wherever it is not possible to start societies with limited liability?

Dr. Friederich: My Union is a union for the area of a Federal State and we ahve a large percentage of credit societies with limited liabilities. We are very much in favour of transforming societies from the unlimited into limited liability in case there is a desire for it, but there must be a "reserve liability.

Mr. Manu Subedar: The reserve is also limited. It costs some money?

Dr. Friederich: Yes, the "reserve" is limited. The liability is realizable only in the case of a bankruptcy.

Mr. Manu Subedar: Coming to the portion of your statement where you talk of the connection of commercial banks with agriculture, would you say that in your country commercial banks do not finance agriculture?

Dr. Friederich: They do, especially in the north of Germany.

Mr. Manu Subedar: Is there any principle about it or is it merely a question of finance?

Dr. Friederich: It is a question of finance.

Mr. Manu Subedar: Where there is a branch of a commercial bank and the agriculturist is willing to borrow on terms which are usually adopted by commercial banks, you would not ask the agriculturist not to borrow? There is no need for divorcing them when they wish to manage each other?

Dr. Friederich: In case the terms are agreeable to both, I have no objection.

Mr. Manu Subedar: Your objection, I take it, is on two grounds: one is that it is not safe for a bank to lend out on long-term credit.

Dr. Friederich: I am very much afraid that by giving long-term credits to agriculturists a commercial bank is likely to suffer, and its solvency may be affected.

Mr. Manu Subedar: If the commercial bank floated a certain amount of debentures for this specific purpose, there will be no question of solvency. Let us say, it takes two lakhs of rupees of debentures for five or ten years, using these two lakhs for the purpose of long-term credit. The question of solvency will not then arise.

Dr. Friederich: I am not in favour of this mixture of functions at all.

Mr. Manu Subedar: If special institutions are to be started for long term credit they must justify separate management. Where there is no justification you will have to fall back upon some machinery for that purpose.

Dr. Friederich: There is always a danger if long and short-term credit business are mixed together. In case you have a very strong management, then there may be no danger.

Mr. Manu Subedar: But if the long-term department is absolutely separated from the short-term department then there can be no fear.

Dr. Friederich: Then it may be more useful to start a special bank.

Mr. Manu Subedar: Then, I am afraid, your paragraph under discussion is not properly worded; because you say in India the difficulty is that most of the agriculturists are of smal l size. If they are not, I presume there would be no objection.

Dr. Friederich: In so far as they are effected on the business principle of a commercial bank, I will have no objection.

Mr. Manu Subedar: But apart from the business principles is your objection based on the ground that the agriculturist is a small party, or do you base your objection on the ground that from what you think of your German experience you would naturally prefer to have a special and separate institution to deal with long-term credit. If we adopt separate institutions, then is it suggested that the commercial bank should not make itself available unless it raises long-term debentures for this purpose.

Dr. Friederich: I have to insist on my principle that commercial banking and this long-term credit business should not be mixed together.

Mr. Manu Subedar: With regard to your suggestion about money-lenders, would you agree to the general principle that credit rate charges for loanable money are dependent on the principle of supply and demand?

Dr. Friederich: Yes.

Mr. Manu Subedar: Therefore, would you say that one of the explanations of the high rates prevailing in India in agricultural districts is due to the shortage of the supply of credit?

Dr. Friederich: I think we have already discussed these matters this forenoon.

Mr. Manu Subedar: I am now referring to the money-lenders. You say in your memorandum "It may be conceded that these high rates are equivalent to the risks run by the lenders. On the other hand, loans are not usually being advanced on grounds of generosity or philanthropy, but for making profits," and so on. I put to you a very general question of principle, that rates depend on supply and demand. The high rates in India must, therefore, be due to a larger demand and smaller supply.

Dr. Friederich: Much depends also on the risk run in doing the money-lending business.

Mr. Ramdas Pantulu: The rate for money depends not only upon the demand but also on the position and status of the borrower and the security that is offered.

Dr. Friederich: That is so.

Mr. Manu Subedar: I notice you say that land constitutes a good security?

Dr. Friederich: Here I am referring to sureties, collateral mortgages, etc.

Mr. Manu Subedar: Would you include land as a good security if it is not mortgaged?

Dr. Friederich: Yes, if it will be mortgaged in favour of a society.

Mr. Manu Subedar: People of good financial position get credit more easily than others. Therefore, the financial position of both the creditor and the debtor is the criterion in all these matters.

Dr. Friederich: Yes, I agree.

Mr. Manu Subedar: If he offered land as security, you would expect the society to accept the same as mortgage and lend credit.

Dr. Friederich: Yes.

Mr. Manu Subedar: But if he offered gold ornaments instead of land would you consider it a good security?

Dr. Friederich: It is certainly a sound proposition but it is only doubtful whether the management would be able to correctly judge the value of the ornaments.

Mr. Manu Subedar: In my country those who have established this movement have proclaimed that it is unwise for co-operative societies to do any business on the security of gold ornaments: In fact one of the Registrars in the Provinces actually said that he would not allow this because it would weaken the co-operative principle. I, as a businessman, cannot understand this at all. What are your views in this matter?

Dr. Friederich: I agree with you. If the managing committee can assess the value of gold ornaments, I do not see any reason why the best security should not be accepted in the absence of other securities in the case of a particular member.

Mr. Manu Subedar: Do you think the principle of the co-operative movement would be undermined if the society gave a loan on the security of ornaments or the Central Bank actually took a mortgage on land.

Dr. Friederich: Co-operative principle is not undermined. In my country people have no gold ornaments. In such cases where people cannot give any tangible security but good sureties then the societies can give credit on such sureties.

Mr. Ramdas Pantulu: Do they get loans from limited liability credit societies on sureties?

Dr. Friederich: Yes, there is no difference at all.

Mr. Manu Subedar: You exclude the giving of credits to individuals by the central banks. Would you confine their lending transactions to societies?

Dr. Friederich: Yes. Loans should be given to societies only.

Mr. Manu Subedar: Will you tell me the reason why you would not allow a central bank if it had excess funds which are available for use. You know the societies' borrowing limits are definitely limited by the statute. Is there any reason why by law there should be a shutting out of the central institution lending out to individuals other than societies?

Dr. Friederich: It should not be done only as a business principle.

Mr. Manu Subedar: You say as a matter of business principle these institutions are set up to help societies. I agree. I also agree that societies should have the first claim on their funds. If this institution had at any time surplus funds what is the objection to their using these surplus funds for granting loans to individuals with perfect safety? What would they do with those surplus funds?

Dr. Friederich: My main objection is only with regard to matters of principles. When you consider the present state of affairs in the co-operative movement, then I am really not in favour that central banks should develop commercial banking with individuals.

Mr. Manu Subedar: Some of us may differ and say that co-operative banking, as it is, is dangerous, and it would not be so dangerous if commercial banking is carried on by them.

Dr. Friederich: It may be that the funds of a society at a slack season may be given to individuals, but in times of moving crops, etc., when societies need help and cannot be helped, then there will be some difficulty. Therefore, it is usual for the central banks to keep money in excess in cases of emergency and other urgent needs of agriculture and so on.

Mr. Manu Subedar: You do not approve of the issue of mortgage debentures by co-operative apex banks as is done in Bombay, Madras and the Punjab, but are you aware that no harm has been done to them by their doing so till now?

Dr. Friederich: Yes; that is perhaps because the Government is behind the issue.

Mr. Manu Subedar: Then what would be the position till mortgage banks are established? Until mortgage banks are established these apex banks should not do this business. Is that what you mean?

Dr. Friederich: That is so.

Mr. Manu Subedar: Therefore, the long-term advances which these banks have begun to give with very beneficial results would be stopped.

Dr. Friederich: In Madras, Bombay and the Punjab some land mortgage banks have been started and others can follow soon.

Mr. Manu Subedar: Have you compared the total amount of mortgage banks in a province with the turn-over of these mortgage banks?

Dr. Friederich: I know the activities of these mortgage banks at the present time are rather on a small scale but with the growth of such banks the position will improve.

Mr. Manu Subedar: At present lot of funds are locked up by long-term loans. Therefore, the provincial banks are now thinking of issuing debentures so that there may be no difficulty of meeting these long-term loans.

Dr. Friederich: I cannot understand why central banks should have still more money, while they themselves do not know where to invest their money, why should they issue debentures and get more money. I think it is much better if these mortgage banks are started and central banks invest their money in debentures of these mortgage banks. It might be more profitable for them to do so by investing a part of their surplus money.

Mr. Manu Subedar: You advise them to buy up the debentures of the mortgage banks.

Dr. Friederich: Certainly: I do not say that these papers should be trustee securities all at once.

Mr. Manu Subedar: Just as they are purchasing Government securities now, they could also invest in these debentures of land mortgage banks. That is your point?

Dr. Friederich: Yes.

Mr. Devadhar: So you are in favour of having a separate institution for the purpose.

Dr. Friederich: Yes, to have a separate bank.

Mr. Manu Subedar: Page 7. You say we see no need to start an All-India Co-operative Bank. There is an Association of Provincial Banks in India, and if they agree to co-operate and start an all-India show do you see any serious objection to it?

Dr. Friederich: I refer to recommendation No. 65, page 249 of the Madras Report. I have no objection to the existing association. It will be very useful. As regards an All-India Bank if U. P. gets a provincial bank, then you will have 9 provincial banks—there is no possibility of any more banks coming in—constituting the new bank and supplying its whole capital and taking the whole risk, and, therefore, I am not in favour of it.

Mr. Manu Subedar: The nine provincial banks might keep 51 per cent of the shares in their hands and let the public subscribe to 49 per cent.

Dr. Friederich: In that case the provincial bank will become the intermediary between the top bank and the central banks. The top bank cannot live without any profit, and the co-operative movement has to pay for it.

Mr. Manu Subedar: Your point will doubtless be considered. But supposing, after full consideration, they decided to start an All-India Co-operative Bank, is there any objection to it?

Dr. Friederich: I have no objection. But in my opinion the provincial banks are the right agencies to which discount facilities should be given by the Reserve Bank when it is created. In case you start an All-India Bank you will have to rule that this facility should be given to the top bank. Then you have one intermediary more. This makes money more expensive for the co-operative movement.

Chairman: We have information that the Indian Co-operative Banks Association have decided not to start an All-India Bank.

Mr. Manu Subedar: That is why I said, 'Supposing they decided otherwise,' and I wanted to know whether there was any objection. I understand that there is a top co-operative bank in Germany.

Dr. Friederich: It corresponds to your provincial bank. I have seen the work of the provincial banks at Calcutta and in the Punjab. I am of opinion that their business is rather on a small scale. I have advocated in my memorandum the participation of Government. It should be considered according to my personal view whether provincial banks, should in the future, be allowed, not at present, to extend their business by dealing with municipalities, public bodies etc. I perhaps touch here the business of commercial banks.

Mr. Devadhar: This morning you were suggesting that our primary societies should build up as much capital of its own as possible. One of the methods that was tried in getting that capital is compulsory deposit. Would you be in favour of that?

Dr. Friederich: In your country it may be right to have compulsory deposits. Deposits are for promoting thrift. I have no objection.

Mr. Devadhar: In certain societies if a member borrows, say Rs. 100, he is asked to deposit 10 per cent. or 5 per cent. on which he gets interest at 6 per cent. That is the usual rate for deposits. In that way there are some societies that have built up 50 per cent. or 60 per cent. of local capital. If the same process goes on, in about ten years they will all be self-supporting. A small society needing, say, Rs. 10,000 can build up its capital in this way. Is that an ideal arrangement?

Dr. Friederich: If members agree, I have no objection, because it is the freewill of the members.

Mr. Devadhar: In some of our districts to-day this system is introduced by a bye-law. This morning you suggested that an agency might be formed for the purpose of raising money in order to liquidate debts.

Dr. Friederich: It was your opinion that it could be done by a Government measure.

Chairman: If Government wanted to do it, he would have no objection. He did not mention any outside agency.

Dr. Friederich: With regard to the discharge of prior debts.

Mr. Devadhar: You have any parallel anywhere to such a step?

Dr. Friederich: In former times it was done in my country.

Mr. Devadhar: Could you point out to us the extent to which it was done by placing a note in our hand?

Dr. Friederich: It was Dr. Hyder who referred to the liberation of the peasants. Peasants having debts and were helped to get rid of them by Government assistance in starting special institutions.

Mr. Devadhar: Something like this was done in Ireland, for landless labourers. I am speaking of people whose lands are encumbered to such an extent that they really cannot consider themselves to be free masters. I want to know whether any scheme has been tried anywhere for such kind of people?

Dr. Friederich: In my country no special institution has been started for discharging such debts. We have a lack of capital and we have to appeal to foreign capital.

Mr. Jamal Mohamed: You speak of prosperous agriculture. Your idea is to borrow at a high rate and lend at a cheap rate. How could you do both?

Chairman: We have discussed it for four hours.

Mr. Jamal Mohamed: Agriculture has become profitless or even impracticable. As it is now, you will have to look at it in some other way than banking.

Chairman: Have you seen Mr. McDougall's paper on marketing?

Mr. Jamal Mohamed: The difference between the cost of production and the sale price is such that mere marketing improvements will not solve the question.

Chairman: That is unfortunately Mr. McDougall's view. Therefore, I suggest that you tackle him on that. He has developed other means of making agriculture profitable in a second paper. Dr. Friederich has not touched this question.

Mr. Jamal Mohamed: He must have in his mind the situation in his country. Here conditions are different. By marketing perhaps you can get instead of 80 per cent., 85 per cent. But when the difference between the cost and sale price is as much as 20 to 30 per cent., as it is now for the last 2 or 3 years, it is really a serious problem. I own some land, I know all about it, I am not even getting 1 per cent. on it. If you can solve the problem have you got any other suggestion?

Mr. Devadhar: It is uplift work.

Chairman: There are many other suggestions. We are now discussing only one aspect of it which has been discussed by Dr. Friederich in his paper. We will first concentrate on his proposal which relates to the provision of credit facilities. Having finished it we will take up the paper on marketing, that will be some time towards the end of next week. Then we will discuss with him these wider issues with which we are not really concerned, but we will make our observations. It is not for us to suggest remedies. I notice that Sir George Schuster in his speech in the Legislative Assembly yesterday said that some economic council will remedy matters of that sort. Strictly speaking, it is outside our purview, still for dressing up our report we shall have to say something, and, therefore, I wish to give members full opportunity of discussing the matter with Mr. McDougall.

Mr. Jamal Mohamed: What I felt was this. The subject will divide itself into: banking, better marketing, and land reform. I am afraid we cannot refer to all these.

Mr. Devadhar: It is summed up by better farming, better business and better living.

Mr. McDougall: With regard to my paper on increasing the outturn of agriculture, it was primarily to enable my own Committee to make up their minds. It may not be of interest to your Committee, but we decided that it would be as well to include it.

Chairman: As I told Mr. Cassels all the papers we have received from the experts will find a place in one of the appendices of our report. My point was simply this. In the first instance the discussion will be confined to improvement of trade facilities, thereafter in regard to the portions of your first paper which relate to non-credit items such as land redemption, education, etc. Similarly, your paper on marketing will also be considered at that stage. First of all, I want to concentrate the attention of my Committee on credit facilities portion of both papers with which we are primarily concerned. The other thing will certainly be discussed with you before you go.

Mr. Jamal Mohamed: The position is that the agriculturist will have to stick to it, whether there is profit or not.

Mr. McDougall: Industry is dependent on the 75 per cent. producers.

Mr. Jamal Mohamed: The whole 100 per cent. lives on agriculture, even the other 25 per cent. They cannot prosper unless the other 75 per cent. prosper.

Mr. Ramdas Pantulu: Without agriculture no trade, no commerce.

Mr. Jamal Mohamed: You are of the opinion that it is urgently necessary to protect the agriculturists against usurious money-lenders. How is the thing to be done unless Government would step in? You want to attract money at a higher rate and lend at a lower rate. I cannot see if it is at all a banking problem.

Dr. Friederich: We reserve our opinion with regard to special measures against usurious money-lenders.

Mr. Jamal Mohamed: You want long-term credit for land improvement, purchase of land, etc., to be done through land mortgage banks. Money for that should come from Government either by way of a loan or assistance.

Dr. Friederich: That touches Mr. McDougall's paper.

Mr. Jamal Mohamed: You speak of primary societies as balancing centres for the demand and supply of money. Where to get the money from, that is the trouble. You say that 'loans should not be given in one lump, but successively according to the needs of the debtor'. That is a good principle, but who is to decide it?

Chairman: Apparently, the answer to that is that the management of the co-operative society would decide it.

Mr. Ramdas Pantulu: When the debtor asks for the loan in instalments, we give it to them accordingly.

Mr. Jamal Mohamed: But how much of it is used in manuring?

Mr. Ramdas Pantulu: The village society is expected to know it.

Mr. Jamal Mohamed: But do they know it? Would you recommend the inclusion, in the management of these societies, of some local practical farmers?

Chairman: It is a question which we shall discuss among ourselves.

Mr. Jamal Mohamed: You say that co-operative work will considerably be forwarded by the efforts of Government to establish in the villages primary schools for removing the illiteracy of the people. Our position here is that we are not able to have compulsory education for want of funds.

Dr. Friederich: I can only say that in my country we have compulsory education. I cannot say anything on this with regard to this country.

Mr. Jamal Mohamed: If at all anybody can do it, it is the Government. In the next paragraph you say:

> "In financing Indian agriculture, the Government will always have to help in times of emergency in consequence of crop failures".

I presume you refer to times of flood or famine?

Dr. Friederich: Yes.

Mr. Jamal Mohamed: Sometimes in flood time sand is thrown on land.

Dr. Friederich: I refer to all kinds of emergency.

Mr. Jamal Mohamed: In such cases would you not recommend Government giving free grants of money without interest? After all it is also to their interest. If the land is not cultivated, Government would not get any land revenue.

Dr. Friederich: I suppose we discussed it.

Chairman: We have been discussing all these problems when you were not here.

I have heard it stated that commercial banks do not play any great share in financing the needs of the agriculturist. On the other hand, Mr. McDougall in his paper says that in Scotland joint stock banks play a large part.

Mr. McDougall: In England also.

Chairman: Here is the report of a Committee presided over by Sir Theodore Chambers in 1923 and they give certain figures which are staggering to me. They say:

> "Aggregating the information which we have received we find that no less a sum than 46½ millions sterling is at present out on loan to farmers from the five leading banks, of which 26 million represents loans for the purchase of agricultural land and 20 millions normal loans for current trading."

Therefore not only do they grant large loans for short term purposes, but they also grant large sums in loans for long term purposes. How they do it without contravening sound banking practice I do not know. Then I turned back to the report and tried to find out how they do it. They say:

> "Bank loans are mainly made by way of uncovered personal overdrafts or against the security of a personal guarantor or against collateral security such as share certificates, title deeds, life insurance policy".

Apparently, on some of these securities they do not hesitate even to grant long term loans. Therefore, it is not a fact that this is business which is not done by commercial banks. They do it if they have the agency there. That would be the first item. In India branch banks do not exist and this bears out a point to which I have drawn attention in your paper on commercial banking. There is no branch bank at any important rural centre, and obviously it cannot undertake that class of business. The second point which came out when we were discussing commercial banking was that in India clean advances are not given to the same extent as either in England or in Germany. In England apparently these clean advances are

given to farmers by way of uncovered personal overdrafts or the security of a personal guarantor or collateral security. These are of course secured advances but they cannot be given in India, because the branch bank is not there.

Mr. McDougall: And something more. English farmers are what you call large farmers with a considerable amount of capital at stake. That is the distinct difference between India and England. I cannot tell what the average farm is, but the bulk of the money which is lent out by English banks is lent on farms on anything from 50 acres to 10,000 acres.

Dr. Friederich: I may add that our commercial banks deal also to a certain extent with our big landholders in the north of Germany. In India, however, there are on an average small holders. There is, therefore no parallel for dealing with commercial banks.

Mr. Lamond: We also do that to a small extent with zamindars, one zamindar guarantees another. We finance the seasonal operations.

Mr. McDougall: I have suggested in my paper that credits can only be granted to farmers in India through co-operative societies with the unlimited liability of the whole village attached to it. I do not think that in England or Scotland banks would be prepared to lend out as freely on very small firms. There is a great difficulty in keeping in touch with them.

Mr. Lamond: They would not advance to small holdings?

Mr. McDougall: No, most of them are big farms.

Chairman: This report certainly does not indicate that this operation is restricted to the big farmers. I shall read another passage from the report of the Chambers Committee:—

> "Credits from the banks is of course restricted to men having banking accounts. Admittedly there are many farmers without them in Great Britain today".

Therefore, from this it does not seem that the operation is restricted to big farmers. It is given to any farmer who has a banking account with a bank.

Mr. McDougall: That is quite true.

Mr. Jamal Mohamed: People who have accounts with banks may be big people; small people may not have accounts. Indirectly, it means that credit is more or less restricted to big farmers.

Chairman: That brings me to my point. If at important rural centres there were branch banks, farmers would have current accounts with branch banks. If that were so and if banks in India followed the English custom, the branch banks would make advances not only for short term credit but also for long term credit to all farmers who have bank accounts with them.

Mr. Jamal Mohamed: But the real question may be this: even in our country there are big zamindars or mirasdars.

Chairman: They cannot be in lack of funds, because they have agents at these big places where there are banks already. They do not find any difficulty at all and we are not concerned with them. I was concerned with the farmers in general and I was referring to the English custom.

Mr. Jamal Mohamed: But there is this difference that here big landlords have no difficulty in finding money and they are comparatively few, while in England the farmers are mostly big landowners.

Mr. McDougall: 75 per cent. of the English farmers are tenant farmers.

Chairman: In fact Mr. McDougall first stated they were big farmers, then I read a passage from the report of the Chambers Committee to show that credit was not confined to the big man as against the small man, but that accommodation was given to everybody having a bank account.

Mr. Jamal Mohamed: But the small farmers may have accounts with the bank.

Chairman: Here they cannot have them, because we have not got the bank. It is Mr. McDougall's paper which led me to consider this point. He refers to that as the usual practice in Scotland. There is no question of the bigness or the smallness of the man.

Mr. Jamal Mohamed: Then there is this question of food production; they produce much less than their requirements, and they are fairly well protected.

Chairman: There is no question of protective tariff for food. In England too the position about agriculture at least was as bad as it is in India and as a result of the measures adopted in recent years, the position has somewhat improved; it is still not quite so good as in many other countries.

Mr. McDougall: The amusing thing is that England is standing up so well to the conditions. It is standing up better than almost any other country in the world. It is very difficult to explain.

Mr. Jamal Mohamed: May I request Mr. McDougall to give us a short statement of the measures taken to improve their position in England. It may not exactly apply to this country, but it may be useful.

Mr. McDougall: I am afraid not, conditions are so entirely different.

Mr. Jamal Mohamed: But it may throw some suggestion.

Mr. McDougall: What the report says with regard to long term tenants is perfectly true. After the War, banks and other people had more than sufficient funds. When conditions became difficult after 1925, they realized that they could not afford to have this money frozen and they did not like the situation. It was to overcome this difficulty that the Agricultural Mortgage Corporation was established.

Chairman: What I was driving at was that the statements which we were listening to about commercial banks are not established by actual facts in England itself, where commercial banking has continued on most cautious lines. I fall back on the proposition which was started. Firstly, if the system of commercial banks in India were more extended or had penetrated into rural areas and secondly, if commercial banks had done business more on the basis of clean credits with their customers, their deposits would have provided for a certain amount for accommodation to farmers to meet both their long term and short term requirements.

Mr. McDougall: I cannot tell you. Owing to the smallness of the farms and owing to their comparatively small tenure, I doubt very much if banks in India could have done that. Lala Harkishen Lal would be able to give you interesting information of what happened in the Punjab with regard to his banks.

Dr. Friederich: I want to say something in this connection. To a certain extent there is a parallel between my country and India, because we are a country with prevailing small size holdings. In 1925 we had in Germany 5,096,533 holdings and out of this number 3,027,431 holdings were only up to 5 acres size. Everybody knows that my country has

developed the agricultural co-operative system and it is due to this that our commercial banks are not eager to deal with the small farmers co-operative societies are, therefore, more or less, the only agency for supplying the necessary funds to these people.

Chairman: I can fully understand that position. If the working of these small holdings is arranged for through the agency of co-operation, naturally the same agency provides credit facilities.

Dr. Friederich: But nevertheless our co-operation touches the biggest percentage of our agriculture.

Chairman: I can quite see that. In England they do not follow the same system of co-operation. Therefore, apparently, joint stock banks have greater scope. But in India the holdings are smaller than the holdings in England and even personal credit cannot be as good as it is in England.

Dr. Friederich: It will be necessary to say something more to make the conditions clearer. You country is a country of prevailing tenancy and my country is a country of prevailing landowners. 86 per cent. of the area of the land is cultivated by landowners.

Chairman: I see that aspect fully. Here a large percentage of the people have not got the same right in the land itself as they have got in other countries like Germany. There again it is a question of security. The security of the man here is not worth as it is in Germany.

Mr. McDougall: Many of our small holdings have a good turnover. For example, in my own village I know one farmer having 12 acres has an income of probably not less than £2,000.

Chairman: Therefore, the proposition is not that the work in itself is not done by commercial banks in any part of the world. The peculiar circumstances in India, in which I include the want of development of branch banking and also agricultural conditions, *i.e.*, small holdings, insecurity of tenure, etc., really operate against the adoption of any savings. My next point bears on the question of rural indebtedness. Here we have this debt of 900 crores. In Germany too you said there is a huge amount of rural indebtedness. Have they in Germany ever at all considered the question of clearing up the debt? It would not be a practicable proposition, but supposing it were practicable for the Government of India to borrow 900 crores and pay all the existing debt, would that result in any good to the peasantry of the land?

Dr. Friederich: It is a matter for the Government to decide.

Chairman: It is really a financial problem and as a matter of fact there is a good deal of material in your paper to furnish an answer to this question in the broadest aspect. Supposing every one of the peasants were freed from his existing debt, would any other factor, *e.g.*, that connected with the position of the peasant in this country, including his want of education, etc., lead to his again getting into debt?

Dr. Friederich: That is the fear I have. In my opinion the indebtedness is not only 900 crores, but it is more.

Chairman: I wanted to have your opinion about Germany. Your conditions of agriculture are better, your conditions of education are better, the development of co-operation is much better than in India. Have the

German Government thought of any plan by which they could wipe out the indebtedness of the peasant, which amounts to something like 900 crores there also?

Dr. Friederich: It would be impossible. The majority are non-agriculturists. Therefore, it would be sure that the Parliament would not be in favour of such a measure. Only 23 per cent. of the population of Germany is supported by agriculture (agriculturists and family members).

Chairman: I fully agree that in a democratic country like Germany where the executive is fully responsible to the legislature, conditions will naturally be different.

Dr. Friederich: The Renten Bank Kreditanstalt is a public bank which gave help to a certain extent to the agriculturists. But only a small percentage, about 5, of the indebtedness has been relieved.

Chairman: Therefore, your point is that about 5 per cent. of the indebtedness was relieved through the agency of a State Bank. Who found the money? My point is that when your Bank gave a loan to another bank was it done on strictly business principles, *i.e.*, did they expect the loan to be repaid or was it done as a grant from Government?

Dr. Friederich: No grant from Government. A part of the capital has been supplied by them.

Chairman: My point is that if the Renten Bank makes advances in that 5 per cent. of cases through other banks in the expectation that it will get back the money, then it becomes a business proposition. The other banks then passed on that money to the peasantry.

Dr. Friederich: It was a business proposition. The money had to be paid back.

Chairman: There is one other matter which has not been discussed here. It has been referred to in a way in Dr. Jeidels' paper. It has been suggested to us by some witnesses and some of the enthusiasts of the co-operative movement that there should be no bar on the co-operative banks taking part in ordinary commercial banking business. What is the position in Germany. Is that permitted in Germany for co-operative banks to do all forms of commercial business?

Dr. Friederich: Co-operative banks are restricted to deal with members. Members may be traders. It is obviously rquired that credit societies are at full liberty to do any sort of commercial banking business for the members except speculation in futures.

Chairman: Therefore, in your country there is no restriction to their doing all sorts of commercial business so long as that business is only done to and on behalf of the members of societies?

Dr. Friederich: That is so. As I have said speculation in futures is not allowed.

9th March 1931.

FINANCING OF FOREIGN TRADE.

(Provisional conclusions arrived at by the Indian Central Banking Enquiry Committee.)

1. We consider that it is not desirable that the country should be dependent on the facilities afforded by non-Indian institutions for the financing of foreign trade.

2. In view of the foregoing statement we recommend the establishment of at least one new Indian institution for financing the foreign trade of India.

3. Further, in view of the fact that the chances of the successful entry and operation of such an institution depending upon private initiative and enterprise are meagre, we are of opinion that the said institution must exclusively handle the work connected with foreign remittances of Government. It is understood that when the Reserve Bank is established, the Reserve Bank will take the place of the Controller of the Currency in deciding the rate of Government remittance.

4. The State should subscribe the share capital of the bank at the start, and 10 years after the establishment of the bank the question of issuing shares to the public may be reviewed by Government.

5. The proposed bank should be established in the next two years irrespective of the simultaneous establishment of the Reserve Bank.

6. It has been suggested to us by witnesses that joint stock banks should do exchange business. We consider it desirable that this policy should be pursued. This development should assist natural growth of the Indian share in India's foreign trade, both directly by the facilities afforded to the customers of these banks and indirectly by providing a further stimulus to the foreign banks under the stress of competition to assist the Indian merchants to a greater degree.

7. In view of the Committee's provisional conclusion No. 12 under the heading "Money Market" the inference follows that there is no reason why the State Exchange Bank, when it is established, should not foster the introduction of rupee bills for import business. In fact, the exchange banks may well make efforts immediately in this direction provided the importers are prepared to adopt the arrangement.

8. It is recommended that any bank, Indian, or non-Indian wishing to do banking business in India should be required to take out a license from the Reserve Bank, when it is established. This is partly necessary in the interests of depositors and partly for giving the Reserve Bank some control over the banks operating in the country.

9. It has been urged before the Committee that the opening of new branches by the exchange banks and the Imperial Bank of India affect the branch banking activities of the other Indian joint stock banks. The Committee recommend that in order to ensure a well ordered development and extension of joint stock banking in the country any bank desiring to

open a new branch in India should be required to obtain the approval of some authority in India, preferably the Reserve Bank, before doing so.

10. Licenses should be freely granted to the already established banks and it would be the business of the licensing authority to see that the provisions of the law and any other conditions specified in the licenses are complied with.

11. In addition to periodic statements from the exchange banks along with other member banks provided for in the Reserve Bank Bill, annual statements showing their assets and liabilities relating to their Indian business, as prescribed by the Reserve Bank from time to time, should be furnished by the exchange banks to the Reserve Bank as a condition of the grant of licenses. Such statements will be exhibited by the exchange banks along with the balance sheet at all their offices.

12. The returns to be submitted by the exchange banks to the Reserve Bank shall be audited in such manner as may be prescribed by the Reserve Bank.

N.B.—Conclusions Nos. 8, 9, 11 and 12 will be included in the conclusions relating to the Regulation of Banking.

Chairman.—To-day we will take up the paper on "Financing of Foreign Trade", and we shall be glad to hear what you gentlemen have to say on the paper which was sent to you.

Dr. Trip: Mr. Chairman, as I take it the first 5 conclusions all relate to one question, that is the establishment of an Indian exchange bank. It is proposed that this Bank will be established by the Government, that the Government will take the share capital and that that Bank will be entrusted with the work connected with the Government foreign remittances. We are against this proposal. We think in the first place that it is unfair. We only find that for the first conclusion which is for consideration that "it is not desirable that the country should be dependent on non-Indian institutions for the financing of foreign trade" no reasons are given. From the banking point of view—and of course we can only look at this proposal from a banking point of view—we see no reason for that undesirability. The only argument that we could find would be that there might be a danger that these foreign exchange banks would withdraw from the country and that then the country would be deprived of an agency to finance its foreign trade. Now that, in our opinion, is absolutely inconceivable. It is not a real matter of fact possibility that 18 banks, and generally speaking 18 very strong banks, doing their work all over the world would, all at once as long as they are not compelled to do so, withdraw from the country. One might as well be afraid of the possibility of all the Indian joint stock banks at the same moment stopping their work and going into liquidation. We find here a second reason from a banking, or a business point of view, that Indian merchants are at present not sufficiently helped by the foreign banks. Some people made that allegation and we dealt with it in our memorandum on foreign trade, but although perhaps in some respects the policy of the foreign exchange banks could be changed we consider that no proof has been laid before us in support of this allegation that would give rise to this general criticism against the foreign exchange banks. So our first conclusion with regard to this proposal is that it is, from a business point of view not well formed. In the second place we think the proposal unfair. We wrote in our paper on industrial finance that we think it unfair and unjust that an institution created with Government capital should enter the competitive field and should compete with existing corporations. The more so is the case here where we are convinced that the present banks who work this field do it in a very efficient and very satisfactory way. I can say that from my own experience because many of these banks work in Java too and I know from the experience of the Java Banks that they do their exchange business in a most efficient and most modern and highly developed way. So there is from a banking point of view not the slightest reason to increase the number of banks that work in this foreign exchange field. Apart from that, we think the proposal is unfair with regard to the position of the Indian joint stock banks. Perhaps here the danger for a sound development of banking in this country would be even greater. We take it, although it has not been stated in the paper itself, that the new State Bank would be allowed to take deposits and we take it too, the new bank would be allowed to do business which follows out of their exchange transactions and business in upcountry places. We fear that from these two activities, the taking of deposits and the doing of inland business, a strong competition would result and that the Indian joint stock banks would feel that competition

very strongly. Of course nobody can tell what the future will be but as we see it we think it more likely that the deposits that the new bank would attract would come, specially in the first years, from the Indian joint stock banks. We don't think that the traders and business life, as long as they have not a thorough experience of the soundness and efficiency of the working of the new bank, would like to break their relations with the existing foreign exchange institutions. On the other hand where in any case the position of some of the Indian joint stock banks is not so very strong it would be considered, that not only to serve the nationalist movement of the country but also as a kind of wise self-protection, it would be advisable to transfer a part of the dposits from these weaker Indian joint stock banks to the new State Bank, as the deposits of that State Bank would practically be guaranteed by the Government. I think that it cannot be doubted that if that conception proves to be true the banking position of this country would be harmed. That proves, in our opinion, that the proposal is unsound. As I have said already, the banking situation of the country does not require the establishment of a new institution. That is not felt by the Committee and so it thinks it necessary to apply artificial measures in order to create this bank. I have mentioned already the first artificial measure *viz.*, that the capital should be taken by the Government. The second artificial measure is that the new bank should get monopoly of the foreign remittances of Government. We think this proposal thoroughly unsound. The Government remittances ought to be entrusted the Reserve Bank. Section 28 of the Reserve Bank Bill provides that: "The Governor-General in Council and other public bodies shall undertake to entrust the bank with such conditions as may be agreed upon with all their money, remittances, exchange and banking transactions in India and elsewhere". So we consider this as the sound principle that is practically of universal application. In all countries the remittance business on behalf of the Government is done by the central banking institution, and we think that that is of the greatest value for the Reserve Bank in order to follow the sound and strong policy. It would, in our opinion, seriously weaken the position of the prospective Reserve Bank if the work connected with foreign remittances of Government were taken away from it. As we see it, the Reserve Bank will have, as I said when we discussed the money market, to build up its own stock of foreign exchange, and it is out of this stock of foreign exchange that the foreign remittances on behalf of the Government will be done; so that if this proves to be true then the Reserve Bank cannot say in advance whether the purchases of foreign exchange that they effect are on behalf of Government remittances or in order to strengthen the credit of the Reserve Bank for its liabilities, or even to be enabled to sell them later in the market or to the banks in order to strengthen the position of the rupee. At present the Government remittances are generally made by the tender system. I, for one, am not much in favour of that system, apart from the present circumstances, of course, and I think it quite conceivable that the Reserve Bank will soon come to the conclusion that it is preferable not to continue that system but to effect the Government remittances out of their own stock and to spread them over the whole year. One of the strongest weapons that, with regard to the international position of the rupee, is in the hands of the Reserve Bank seems to be the possibility, that they get from this monopoly with regard to Government

remittances, to regulate with the Government, the time and the amount of these remittances in a certain period. They can in concert with the Government either slacken the remittances and decrease the amount that is remitted in a certain period when the position of the rupee is weaker or they can speed these remittances and increase the amount when the position of the rupee is strong and the foreign exchange comes into the market. I cannot see how the Reserve Bank would be able to fulfil this task, to which we attach the greatest value, if the work connected with the foreign exchange business of the Government were taken away from it and given to another institution. We thought that the Central Committee was prepared to accept our suggestions to strengthen the position of the Reserve Bank, and, therefore, I may say that we are now disappointed to see here a proposal which would, in our opinion, seriously interfere with the task of the Reserve Bank and would weaken the position of that institution. On all these grounds we come to the conclusion that it would not be desirable for the banking position of the country, and especially for the position of the prospective Reserve Bank, if these proposals were made by the Central Committee. I am, moreovr, if I may say so, convinced that it would really weaken the authority of the Central Committee if they come before the public with such a proposal at the present moment. As far as I know, especially after the War, State banks are in the international world looked upon as undesirable and objectionable, and I do not think that international confidence in the policy of this country would be strengthened if it came to establish a State Exchange Bank. What should be done, in our opinion, is that no action should be taken before the Reserve Bank is constituted and has gathered enough experience to advise Indian joint stock banks what action they could take. For, in our opinion, the only way in which without harm to the banking position of the country, an Indian Exchange Bank could be started would be that Indian joint stock banks should among themselves create such an institution, subscribe to its capital and work it in concert with and on the advice of the Reserve Bank. If that could be done, I think, a sound and right solution would be achieved. That is our opinion.

Chairman: We are confining to paragraphs 1 to 5. I now ask my colleagues whether they want to put any questions.

Mr. Rushforth: With reference to the first provisional conclusion you said you could not agree from a purely banking point of view. I can quite understand that. It is not the banking point of view that made us to come to that conclusion. But assuming that we have come to that conclusion and we think that a new Indian institution is desirable, could you suggest any practical method by which it could be established?

Dr. Trip: I finished by saying that the only suggestion that we can make is that it should be done only by the joint stock banks. We have the impression that the Indian joint stock banks are strong enough to create by themselves a satisfactory foreign exchange bank, and I think it would be a sound and good policy if they created their own agency.

Mr. Rushforth: In that case they would voluntarily have to relinquish all their desire to do foreign exchange business themselves. That is one of our troubles.

Mr. Currie: The British Overseas Bank was formed by the Lancashire Bank, the Scotch Bank, ourselves and various other banks which were

interested in business in one particular country. That bank has now been working successfully for some years.

Mr. Rushforth: Do the public deal with the bank or do the joint stock banks hand on their clients to that bank?

Mr. Currie: What happens is that credit is arranged abroad by that bank, and the joint stock banks who are members of the bank take the credit they require.

Mr. Rushforth: Has it branches abroad or does it work through agencies?

Mr. Currie: Yes. They work through agencies.

Mr. Rushforth: If we decided to start an Indian Overseas Bank it would not be necessary to consider anything more than the joint stock banks putting up the rupee capital and arranging for agencies overseas.

Dr. Trip: You have international acceptance corporations to do exchange business. Banks form an institution in order to do international acceptance business. One such institution was not confined to Dutch banks, other banks of other countries took part in it.

Mr. Rushforth: You get back to your old difficulty. Your joint stock banks do want to have a finger in the pie, and they would not be content finally to hand it over to the common institution.

Mr. Currie: It is useful. Joint stock banks have learnt exchange business by supporting it.

Mr. Sarker: What exactly are your objections to the State participating in the initial stage by providing the capital of the new exchange bank.

Dr. Trip: The objection is on principle. We see exchange banks do their business in a very efficient way and there is no question of inefficient handling of the foreign trade of the country. We think that Government should not enter this field. In the second place it is no concern of Government, and Government will have to do so many things in the near future that the money could be applied in a better way than this.

Mr. Sarker: That is the principal objection, there is no other . . . . .

Dr. Trip: In our opinion they are sufficient.

Mr. Sarker: In Japan they have a State Bank.

Dr. Trip: So far as I know the situation in Japan is a special one. The Bank of Japan does no foreign exchange business. It does the inland business, the credit giving and other work that is done usually by the Reserve Bank of a country. The foreign business is done by the Yokahama Specie Bank. I do not think it is an advisable and satisfactory position.

Mr. Sarker: Can we do the same thing here.

Dr. Trip: I would certainly not advise, because you have not so much experience as to place the foreign exchange business and inland credit giving business in two separate hands. I am certainly of opinion that these two tasks should be in the same hands.

Mr. Sarker: What about the National Bank of France? Capital was subscribed by Government for financing their export trade.

Dr. Trip: I must say I do not know that. In France the institution is for acceptance business, not for financing foreign trade.

Mr. Sarker: The Bank participates in the foreign trade. (League of Nations Paper No. 10.).

Dr. Trip: I must say there was a question of pioneer work. There was no acceptance work done in France. Probably Government thought it necessary for the country to do that, and entered the field. But that is not the question here. There is no question of pioneer work in foreign exchange business.

Mr. Sarker: You say if the joint stock banks voluntarily start an exchange bank you have no objection.

Dr. Trip: No.

Mr. Sarker: If they want Government assistance in the initial stage, do you object?

Dr. Trip: I should have objection to that. If the joint stock banks feel that it is desirable for their position to enter this field they are strong enough to do that, and it must be left to them.

Mr. Sarker: Even if they ask for some assistance for the first five or ten years after voluntarily forming a common institution, you will oppose it.

Dr. Trip: Yes.

Mr. Sarker: You will oppose any form of State assistance?

Mr. Shanmukham Chetty: The provisional conclusions of this Committee are based on the fundamental assumption which is contained in paragraphs 1 and 2 of the Provisional Conclusions. I do not think it would be proper for us to discuss with the experts whether the feeling that we have in this matter is right or wrong. Rightly or wrongly, we feel that we cannot depend and continue to depend on foreign institutions for financing our foreign trade, and we, therefore, want to devise some means whereby at least a part of the financing of foreign trade will be in the hands of an Indian exchange bank. What I would like to discuss with you is,—if you are prepared to concede the assumption underlying these paragraphs—the difficulties and objections that might be raised from a banking point of view to the proposals that we make. You would assume that rightly or wrongly we go on this assumption; we want the foreign trade of the country, at least a part of it, to be transacted by Indian institutions; you assume that we want it, and help us in finding out ways and means of achieving that end.

Dr. Trip: I shall assume that you want it. But I can not conceive that we came here for that purpose.

Chairman: Dr. Trip began by saying that he sees no reason for the first assumption. Of course it is open to the members of the Committee to discuss with him the reasons which led him to arrive at that conclusion. There is no question, at the present moment, of the Committee going back on that conclusion. The whole thing has now been discussed and Dr. Trip's attitude is that he sees no reason for the first conclusion.

If you want to discuss with Dr. Trip why we came to that conclusion it is open to you to do so. If you do not want to discuss, it is also open to you not to discuss. Obviously Dr. Trip and his colleagues can not start with the acceptance of the assumptions. I take it that Mr. Chetty would be perfectly entitled to put questions such as: supposing this is the assumption, have you any suggestions to make? I see your caveat. You began by saying that you did not accept the assumption. But supposing Mr. Chetty or any member of the Committee including myself were to put the question to you—assuming that the assumption stands, have you any suggestion to make? There are two different aspects. You question the assumption, and, as I said, any member of the Committee is at liberty to discuss with you the assumption, but then comes the second stage, that is, we may ask you—assuming that the assumption stands, have you any suggestions to make proceeding on that assumption.

Dr. Trip: I quite see your point, but I think that makes our position very difficult. If we are asked to assume that Government think a certain measure of such interest to the country at large, then of course Government could do it although under normal circumstances it would be absolutely unsound. During the War Governments of practically all countries took measures which were from economic, financial and banking points of view, absolutely unsound. But how can we concede the assumption if we do not see the real reasons from a banking point of view. And, of course, if you tell us—we think that for the general interests of the country this question is of such paramount interest, you must draw your conclusions.—We cannot agree either to the assumption or to the conclusions?

Chairman: It is open to anybody to discuss the assumption with you and your colleagues. The next point is, if it is assumed that the assumption stands, have you anything to tell us as to how a scheme, sound from the banking point of view, can be worked out.

Mr. Shanmukham Chetty: Whatever might be the line of argument taken by my colleagues on the Committee, I at least do not want to discuss the reasons underlying this assumption that we have made because I consider that this is a question of broad national policy. I will give an analogy. We have got the Tariff Board. Now Government have assumed and have declared that it is their policy to give discriminating protection to Indian industries, and from time to time they refer to the Tariff Board for investigation the cases of certain industries. It is not open to the Tariff Board to say Government is wrong in following this policy because free trade is better than protection, but it is for them, taking it for granted that this is the policy of Government, to devise ways and means of carrying out their policy. Now, that is the line I want to take with the foreign experts on this question. We have to take for granted that it is our national policy to bring into existence a state of affairs by which a part of the foreign trade of the country will be in the hands of Indian institutions and we shall not continue to depend on foreign institutions for the financing of foreign trade of this country. I do not want to discuss the assumption with the experts, but having made this assumption I want to examine with them the soundness or otherwise of the proposals that have been made to achieve that purpose. That is my position.

Dr. Trip: It sounds very sound and clever. It is in my opinion absolutely impossible to separate the two things. You can make the assumption that all kinds of industries should be started here although the

fundamental conditions are not present in the country. You put such an assumption before me. What is the use of discussing with me as to how it should be done if I think the fundamental conditions are lacking. As far as I can see, it is not possible for me to free your assumption from the consideration whether it is necessary for the interests of the country. The only sound solution that we can see is that Indian joint stock banks should do it among themselves.

Mr. Shanmukham Chetty: Therefore you are coming to the method which we shall presently discuss. You say if it has to be done, let the Indian joint stock banks join together and start this foreign exchange business. I have another alternative and I want to discuss it with you.

Dr. Trip: You must give your reasons why you think my proposal is not useful.

Chairman: The first item in the terms of reference to our Committee is the development of banking with a view to the extension of indigenous, co-operative and joint stock banking, with special reference to the needs of agriculture, commerce, and industries. There is no harm in my telling you, it is the unanimous conclusion of the Committee, I alone reserving my opinion, not dissenting. If we feel that the development of foreign trade cannot proceed properly without Indian institutions it is perfectly legitimate for us to come to that conclusion. I fully realise what you say—the present banks are there, etc. We have also discovered that in Japan it was only after the institution of the Yokahama Specie Bank that the people of the country managed to secure a large and growing share of the business connected with the foreign trade of that country. That fact is there before us. We have also statistics. Therefore it may be perfectly correct for us to come to the first conclusion. What Mr. Chetty said would be absolutely within the terms of reference. Mr. Chetty's second point was, assuming that this provisional conclusion stands, whether you as an expert have any means of indicating to us a sound plan by which it would be possible to start a purely Indian institution for managing the financing of the foreign trade of the country. You have yourself made a certain suggestion in that connection. Mr. Chetty may have another, I do not know. You have incidentally brought to our notice the objections connected with the particular measure which we had in view. All that Mr. Chetty wants is to know whether you have a solution and if so, to discuss with you and your colleagues the solution or other methods of solution. Let us proceed on that basis.

Mr. Shanmukham Chetty: You suggested at the end of your remarks that if it has to be done, the joint stock banks should join together and do the business. At least by implication you have conceded that there is a method of doing it.

Dr. Trip: I said that if you want to start an Indian exchange bank, the way I mentioned is the only sound way.

Mr. Shanmukham Chetty: In paragraph 3 of your memorandum you said:

> "It can scarcely be denied that the Exchange Banks because of their resources and experience are strong competitors".

You concede in this statement that the position that foreign exchange banks now occupy as a result of their resources and experience is so strong that any new institution that comes into existence will find it rather difficult to compete in this class of business with the foreign exchange banks.

Dr. Trip: They will find it difficult and therefore I advised that the Indian joint stock banks should wait until the Reserve Bank is constituted.

Mr. Shanmukham Chetty: What I want to make clear in my mind is that you agree that even if an Indian institution came into existence to-morrow, either by joint stock banks joining together or by starting a Reserve Bank, the resources and experience of the foreign exchange banks are such that the force of competition will be very severe indeed, and that it would be very difficult for the new institution that comes into existence to compete with the foreign banks.

Dr. Trip: I must make a point here. It is not in order to bring in any nationalistic feeling. If you have an Indian institution that is managed by men who know their task and who work efficiently, the Indian traders should go to that bank. I know the national feeling in the matter. If you have some Indian institution in which the trade and business life have confidence, I cannot see that it will be difficult.

Mr. Shanmukham Chetty: Therefore the only way in which an Indian institution can successfully compete with the foreign banks would be either by Indian businessmen, actuated by motives of patriotism, going to this Indian bank for their foreign business or by some sort of extraneous help to the institution.

Dr. Trip: If the terms are the same, it is quite sound for them to give preference to their own bank.

Chairman: If the national feeling is very strong in favour of an Indian joint stock bank, that feeling may show itself in one of two ways: either by the individual Indian trader going to the Indian bank in preference to any other bank or—that is where Mr. Chetty comes in—by the Indian public as a whole through their Legislatures agreeing that the Indian bank should be provided with some form of State assistance. Your argument was that if there was that amount of national feeling in the country, the Indian businessmen would go to the Indian exchange bank in preference to a foreign exchange bank; but it may also happen that Government, if it is fully responsible to the Legislature, may give some form of State assistance to the Indian exchange bank which will secure the object in view. If they did that, they will have before them the precedent of Japan. I am not here discussing your other argument which may be very forcible, that even if that is done it must not be done in a way which will affect the operations and the sound working of the Reserve Bank.

Dr. Trip: I do not say that Indian traders and businessmen should undertake to make sacrifices on behalf of this bank. I only said that if the Indian institution was on the same sound lines and gave the same efficiency to Indian business life, the Indian traders would give it preference.

Mr. Shanmukham Chetty: Therefore we come back to the point whether the strong position that the foreign exchange banks now hold in the Indian banking world is so formidable that a new institution that comes into existence will be able to offer the same facilities and the same efficiency of service without some extraneous assistance?

Dr. Trip: I cannot say that it would be impossible. Of course, they would have smaller business in the beginning, but they would build it up, especially when they are based on the work of the Reserve Bank.

Mr. Shanmukham Chetty: My point is this: you have yourself conceded that the position of the exchange banks, their resources and experience, make them very strong competitors. From that I am entitled

to draw the inference that if a new institution that comes into existence could be expected to offer the same efficiency and the same terms as the existing institutions, it would in the early stages at any rate require some extraneous help. Otherwise there is no meaning in the statement that you have made that these foreign banks, by reason of their resources and experience, are very strong competitors.

Dr. Trip: Yes, in my conception competition is always desirable or sound for a new institution if it works in a prudent and proper way.

Mr. Shanmukham Chetty: The new institution must certainly work prudently and in a proper way, but to enable it to compete with the existing institutions on terms of equality and to enable it to do the same economical service, it requires some extraneous help in its early stages at any rate.

Dr. Trip: I do not agree.

Mr. Shanmukham Chetty: Then I do not know what exactly is the implication of your statement that they are strong competitors.

Dr. Trip: That is a statement of fact. They are strong competitors, in the first place among themselves.

Mr. Shanmukham Chetty: And much more so in comparison with a new institution that comes into existence.

Dr. Trip: Therefore the new institution cannot expect to get a very large part of the foreign exchange business in the beginning, and so they may want some help on the part of the Reserve Bank.

Mr. Shanmukham Chetty: But the Indian trader will not go to this Indian institution simply by reason of his patriotic sentiment, unless the new institution offers the same facilities and the same efficient service as the existing institutions.

Dr. Trip: Yes.

Mr. Shanmukham Chetty: To enable the new institution to offer that efficient and economical service, you must give some sort of help, so that it might compete with the existing institutions.

Dr. Trip: I do not want to give it such a sort of help.

Mr. Shanmukham Chetty: I am not suggesting the sort of help to be given, we shall come to it later. Do you concede the general proposition that some help ought to be given to enable this institution to compete?

Dr. Trip: No.

Mr. Shanmukham Chetty: Then how is this new institution at the very inception to give that efficient and economical service as the existing institutions.

Dr. Trip: When a new institution is started, it will always have to compete with existing institutions.

Mr. Shanmukham Chetty: The new institution might be killed in the course of a year?

Dr. Trip: Therefore they must look at the basis of their work. How could it be killed?

Mr. Shanmukham Chetty: Simply by the force of competition.

Dr. Trip: The existing institutions want to make some profits too. They work on a profitable basis and I do not see why a new institution should not work on the same basis.

Mr. Shanmukham Chetty: I leave that argument at that. In criticising the scheme that we have put forward, I take it you will examine it from the point of view of (1) how it will affect the Reserve Bank (2) how it will affect the joint stock banks, and (3) I suppose you will also take into consideration whether it will unjustly affect the existing position of the foreign exchange banks. I suppose these are the three points we have to consider.

Dr. Trip: Yes.

Mr. Shanmukham Chetty: You say that the establishment of a new institution of the nature contemplated by us will interfere with the task of the Reserve Bank and will weaken its position. I want to understand this position a little more clearly. As I understand the Reserve Bank Bill, the function of the Reserve Bank is this: it will no doubt under clause 20 be entrusted with the task of undertaking the foreign remittances of the Government but in discharging that task, I anticipate that in normal circumstances the Reserve Bank will simply take the place of the Controller of the Currency. I will explain my idea. My conception of the function of the Reserve Bank in foreign remittances is this: I do not expect the Reserve Bank normally to come into competition with the exchange banks in the financing of the foreign trade just as I do not expect the Reserve Bank to come into competition with the joint stock banks in commercial banking business. I expect that either by the tender system or by any other system the Reserve Bank will simply act as the Agents of the Government in securing the sterling requirements of Government from the open market. I anticipate that it is the function of the Reserve Bank to enter the open market in the matter of remittances only when the upper and lower gold points are disturbed.

Dr. Trip: Not when they are disturbed, before they are disturbed.

Mr. Shanmukham Chetty: Or when there are forces that will tend to disturb the upper and lower gold points. Then it is the function of the Reserve Bank, by means of the Bank Rate or by entering the open market operations, to check the tendency of disturbing. So do you agree with me that it is not the function of the Reserve Bank to compete normally with exchange banks, whether foreign or Indian?

Dr. Trip: It must be well understood that the work of the Reserve Bank will always have some competitive influence; otherwise it could not work at all. Even if you assume that the Reserve Bank wants to sell to, or purchase from, the existing banks and not in the open market, my point still stands that the Bank can do that work efficiently only if it is free the whole year round to decide on the time when it will try to get foreign exchange and upon the amount it wants to get. That is quite apart from the question whether it does it with the foreign exchange banks or in the open market.

Mr. Shanmukham Chetty: You said you are not in favour of the present tender system.

Dr. Trip: I did not say that about Government; I said that for the Reserve Bank it is not the most desirable method.

Mr. Shanmukham Chetty: When the Reserve Bank comes into existence, what do you think will be its normal operation in the matter of remitting Government money?

Dr. Trip: I can tell you how it is done, for instance, by the Java Bank. In the beginning of the year we get from Government the scheme of remittances. Though they are not bound to the scheme, we suppose that it would be followed on behalf of Government and that remittances would be made to Holland, England, America, etc.

Chairman: That is the budgetary scheme, as put down in the budget?

Dr. Trip: No.

Mr. Shanmukham Chetty: Government must give to the Reserve Bank some programme of their remittances for the whole year.

Dr. Trip: Yes. They are always entitled to change the programme. The Java Bank could establish their policy beforehand in order to be able to make the remittances. As soon as they get offers for an exchange from the banks or, if they cannot get them from the banks then, in the open market, they buy beforehand or before the date of the remittance of the foreign exchange, and they are prepared to remit when Government wants it to be made. There was an occasion when there was weakness in the market and the position of the Java Bank actually was weak. The Java Bank consulted the Government and advised them to postpone a portion of their remittance and to finance their foreign needs by drawing on credit as the British Indian Government always do with the Treasury at home. In this way the market was not disturbed by remittance on behalf of the Government. When the position of the market became strong, the Java Bank bought again in the market from private banks and the remittances were resumed and the insufficiency of the former period was covered in the next period. So there is always a regulating factor in these remittances for Government. I think that is the ideal system that I can conceive of.

Mr. Shanmukham Chetty: That is practically the kind of scheme that was contemplated by the Indian Currency Commission. In fact you will remember that when we discussed the Reserve Bank Bill we contemplated that the Reserve Bank should do the same in the matter of Government remittance. No doubt the Reserve Bank, after knowing the requirements of Government in advance or obtaining the programme of Government remittance, will decide the best time when the sterling requirements have to be purchased. The main point in the scheme is that the Reserve Bank ought to be the judge. When Government once gives the Reserve Bank its programme, it is for the Reserve Bank to decide the time when it will purchase its requirements. That is the main function of the Reserve Bank?

Dr. Trip: Yes.

Mr. Shanmukham Chetty: Normally in making provision for these requirements, the Reserve Bank will purchase only from the existing bankers. It will not enter the open market.

Dr. Trip: It is not necessary and as long as it is not necessary, it is preferable to purchase foreign exchange from the banks.

Mr. Shanmukham Chetty: Not only is it not necessary, but it would not be preferable to compete in the open market without any reason.

Dr. Trip: If they cannot get the foreign exchange from the banks, they will have to take it from the open market, but if they wanted for their policy and they could not get it from the banks, they will take it from the open market.

Mr. Shanmukham Chetty: It will certainly be competent for the Reserve Bank to go and purchase in the open market, if they wanted, but

if the Reserve Bank made up their mind that during one month they must cover themselves to the extent of 5 million sterling, they would in the first instance go to the exchange banks and if the exchange banks are able to give the sterling at what the Reserve Bank consider a proper rate, they will normally purchase from the existing exchange banks.

Dr. Trip: I must say that I should not think that it would be the right policy for the Reserve bank to go to the exchange banks. They must wait. If they know that they want so much, they are in a proper position to buy. Otherwise they must wait and consider the position. That is the proper way. You can never say what the position will be six or seven months in advance and the Reserve Bank can never know what their position will be from day to day. They may have even to advise Government to postpone the purchase.

Mr. Shanmukham Chetty: But the point is that in our scheme we have suggested that this new Indian institution must have the monopoly of the Government remittance business, by which we want that the Reserve Bank, in meeting its obligations towards Government in the matter of remittance, must in the first instance give this business to the Indian Exchange Bank. What is your objection to that?

Dr. Trip: The first and final objection is that the Reserve Bank would not be able to do that; because they would not know, when they buy foreign exchange, whether they do it on behalf of Government or not. If foreign exchange is offered to you, your position generally makes it necessary that you should buy it. If you have three or four ways for which that foreign exchange may be necessary to you, you do not know for what purpose you will in fact use it if you have to use it five or six months later.

Mr. Manu Subedar: Let us put it this way. Assuming everything that you have said, about the Reserve Bank's freedom to enter the market at any time to hold its own foreign exchange, the Reserve Bank will have many functions. There would be one department of the Reserve Bank doing all this and some officials will have to give attention to it. Assuming that the department of the Reserve Bank which under our scheme is to be an Indian institution was separated for purposes of finance, is there any fundamental objection?

Dr. Trip: I cannot see any reason for that. Is it to be a department or is to be incorporated in the bank itself,

Mr. Manu Subedar: If the ownership is the same, it becomes a separate department.

Dr. Trip: It can only be the same if the purposes of the two departments are the same.

Mr. Manu Subedar: The purpose, policy and control will all be the same

Dr. Trip: The work is the principal thing.

Chairman: I see the implication arising out of Mr. Subedar's proposition which cuts at the root of the main scheme. He will have an opportunity of pursuing his point later.

Mr. Shanmukham Chetty: Even if the Reserve Bank is established, what is the objection to their following the present system of calling for tenders from time to time for remittances?

Dr. Trip: The objection is that it would be an automatic system. The Reserve Bank would come to the open market. That would put them in a weak position. If they canvass for a certain amount of foreign exchange,

the whole market knows that the Reserve Bank wants so much foreign exchange, but if they keep it indoors in the Bank itself, the market never knows how much the Bank wants. The market can form its own ideas about it, but it can never know because there is always the possibility of the Reserve Bank selling part of their gold or gold securities covered by their obligations.

Mr. Shanmukham Chetty: That is no doubt a disadvantage that the Controller of the Currency also calls for tenders, but I would suggest that that disadvantage would not exist when the Reserve Bank calls for tenders. It is not necessary that the Reserve Bank should accept the lowest tenders. Therefore the market must know that when the Reserve Bank calls for these tenders that in the opinion of the Reserve Bank it has not got the rate which it considers proper. Do you not think that situation is correct?

Mr. Lamond: That happens even now.

Mr. Shanmukham Chetty: But the Reserve Bank will be in a stronger position than the Controller of the Currency.

Mr. Lamond: But Government through the Controller of the Currency does the same.

Chairman: I suggest for Mr. Chetty's consideration that the *pros* and *cons* of this was fully discussed before the Hilton-Young Commission and the discretion of the Reserve Bank to make its remittances as it chooses.

Mr. Shanmukham Chetty: My point is that even if the Reserve Bank follows the present policy of calling for tenders it does not take away the discretion of the Reserve Bank to make its remittances as it chooses.

Chairman: If this Committee were to lay down that ordinarily the Reserve Bank should do it by the tender system then naturally it does to a large extent interfere with discretion. All I wanted to remind you is that there is a good deal of material in the Hilton-Young Commission's evidence in the matter. I think they have ended up by saying that the matter should be left to the discretion of the Reserve Bank.

Mr. Shanmukham Chetty: I was questioning on this point because in our scheme tenders would still be called for and the preference will be given to the Indian Exchange Bank in the matter.

Chairman: That I can quite see.

Mr. Shanmukham Chetty: To support that scheme I wanted to make the position clear in regard to the tender system and I feel that even if the tender system continues it does not take away the discretion of the Reserve Bank and it does not affect the position of the Reserve Bank. Dr. Trip says that if the Indian Exchange Bank is established it will interfere with the task of the Reserve Bank. My point is that it will not.

Dr. Trip: According to my experience I think the tender system gives not enough freedom to the Reserve Bank because from the fact that a certain amount is asked, it is known how much the Reserve Bank is prepared to buy and I say that even that is not advisable. The Reserve Bank must do its operations in foreign exchange from day to day. I think it is the only sound way of doing things. I am also sure that after a Reserve Bank is established they will also be of the same opinion after a few years of experience.

Mr. Manu Subedar: It would be much better in your opinion to leave it to the Reserve Bank to do what they pleased.

Dr. Trip: That is my point. The Reserve Bank will themselves realise.

Mr. Shanmukham Chetty: You object to any form of State assistance to the proposed Exchange Bank. Supposing, for instance, we devised a scheme by which a new institution for doing exchange business is started in this country with a paid-up capital of say Rs. 3 crores and the shares are offered to the public; and if any shares that are left over are taken by Government, would your objection to that be still as strong as to the formation of a State Exchange Bank.

Dr. Trip: Yes, because for all practical purposes it will be a State-managed institution.

Mr. Shanmukham Chetty: Your objection is therefore a fundamental one.

Dr. Trip: Yes.

Mr. Manu Subedar: In order to avoid any misunderstanding I should like to indicate at the outset that I fully appreciate the position which you have taken up as technical advisers in Banking. I say this because in the ultimate conclusion which I draw, I differ from the conclusions which you gentlemen have drawn up. I make this prefatory statement with a view to tell you that I thoroughly understand your position and I hope you will also understand me aright. Now, with regard to the first conclusion we have arrived at, here mentioned in this paper, I would like to ask you whether, if similar conditions as exist in India today existed in Holland, there would be some room for apprehension on the part of the citizens of Holland and whether you would yourself share that apprehension. My point is this. Supposing banking facilities were run by foreign institutions and as banking facilities they were quite good and efficient but still the Nationals of the country thought that since their interests were in foreign hands it was not a desirable thing. Would it be right and natural to feel that apprehension?

Dr. Trip: I cannot say that it is so in Holland today.

Mr. Manu Subedar: I am not talking of the existing position in your country. At present your own interests are so strong that you do not feel that your interests will be overwhelmed by foreign institutions. Supposing the position in your country today were as it is in my country today, would that be a right apprehension?

Dr. Trip: It depends on the development of the circumstances of the country. If we were served efficiently and thoroughly I do not see any reason for any apprehension.

Mr. Manu Subedar: I also assume that you take the same view with regard to Japan where they have started a State Bank to do the exchange business.

Dr. Trip: I have a great admiration for the Japanese people in general but I consider their ways of dealing with the economic policy to be not quite sound.

Mr. Manu Subedar: You still adhere to your view in spite of the admirable results they have attained?

Dr. Trip: Yes, that is my view.

Mr. Manu Subedar: Now, let us come to France. Would you equally condemn the people of France and their policy because they decided to establish a State institution for this purpose.

Dr. Trip: In the case of France it is somewhat different, because it was not a business done in France before. And even so, I do not think it was the right thing to do for the French Government to start an institution, because I am convinced that as long as national conditions for an acceptance market are not available in France this institution will have great influence. If it is to be done, it ought to be done by the Reserve Bank as it is done in my country.

Mr. Manu Subedar: Now I come to the question of England. In England there were a good many foreign banks doing this business but still through private enterprise, although not through State assistance, they started their own private enterprise and did it successfully. Would you condemn that also?

Dr. Trip: Oh no.

Mr. Manu Subedar: Why not, on the ground that they replace existing institutions?

Dr. Trip: When an Indian joint stock bank were started purely by private enterprise to do foreign exchange business and as a consequence all the foreign exchange banks were driven out of the country, then I would say, I am sorry for the foreign exchange banks but I would admire the Indian institution.

Mr. Manu Subedar: I am not talking of the National policy at all. I am talking on strictly pure financing. At present the foreign exchange business is entirely in the hands of foreign institutions. If this is so, would you not regard it as a misplaced desire for an Indian joint stock bank being formed to do such business when the present needs are met by foreign institutions?

Dr. Trip: If private institutions could be started and successfully do the business, then I would give them credit for such work. Just as we saw that the extension of branch banking business by existing banks may lead to sound competition, so also I feel that it would be quite sound if private institutions entered this field of exchange banking also.

Mr. Manu Subedar: But the competition among the existing banks themselves is very severe. There is great competition now among the exchange banks as you have said, so that additional incentive to competition to improve the existing conditions is not necessary.

Dr. Trip: I do not consider it is necessary. Therefore, it would be well for prudent and cautious people to wait till a Reserve Bank is started.

Mr. Manu Subedar: I am only talking of the general principles from the business point of view, whether the concern would succeed in its endeavour or not and whether there is sufficient scope and so on.

Dr. Trip: Therefore my view is that a good businessman must have the power to compel himself to wait a bit until the circumstances are better and he sees the possibility of making profits. My opinion is that this country is bound to develop very largely in the future in the matter of its exports. I think it will develop to a very great extent and then the need for other exchange banks will arise.

Mr. Manu Subedar: Would you say, in your opinion, that that is the ground which has attracted many more banks now in India than in the past?

Dr. Trip: I certainly think that they have come in thinking that there will be business.

Mr. Manu Subedar: Would you not say that these foreign banks have now come in in a larger number than before the war?

Dr. Trip: Yes.

Mr. Manu Subedar: In your opinion has the present range of competition with regard to the business of financing of foreign trade reached a point beyond which competition should not be attempted?

Dr. Trip: I should say for the present that the limit has been reached but that does not imply that it will be so for all time. Conditions are bound to change with the future development of the country.

Mr. Manu Subedar: If the limit has been reached, would you—not as advisers to the Government of India—but as advisers to private joint stock banks, advise them to start such institutions at present?

Dr. Trip: At the present moment, from to-day till to-morrow no. Therefore, I recommended from the beginning that they should wait until the Reserve Bank has been started.

Mr. Manu Subedar: Therefore the position as I understand it, if I have understood your opinion aright, is that the present field is fully covered and there is no room for Indian exchange banks to come in if they wanted to have a share in the business?

Dr. Trip: Speaking from purely business standpoint, I think the field is full now and it is properly and very well covered by existing institutions. But I will have no objection to a new institution being started on sound lines and its chance tried.

Mr. Manu Subedar: If the field is properly covered by 19 institutions and if the 20th one is started, naturally one has to go out—it may be the new one or one of the existing ones.

Dr. Trip: That need not necessarily happen. The business done by 19 might be spread over 20.

Mr. Manu Subedar: With regard to the establishment of a State exchange bank to which you have raised objection, may I ask whether there is anything fundamentally objectionable from the business point of view, for the Reserve Bank giving to this State institution not only Government remittance business but also the purchase and sale of its own foreign exchange and the entry in the open market.

Dr. Trip: That is quite a different proposition, because it would be a separate business institution and not a Reserve Bank. Their policy, work and methods can never be the same.

Mr. Manu Subedar: When you talk of a business concern you mean a concern which makes profits.

Dr. Trip: Yes.

Mr. Manu Subedar: But if it is a State concern then there is no question of profit at all. Is there anything fundamentally objectionable?

Dr. Trip: I think the question itself proves how unsound the proposition would be.

Mr. Manu Subedar: An institution can work subject to the desires of its principal in certain directions as the Imperial Bank now is much more a profit earning concern than private ownership. But in matters of Government the Imperial Bank Act has been laid down. They may occasionally advise Government not to do certain things but if Government say they want to do them the Imperial Bank say all right. If the Reserve Bank were to tell this institution 'you have to do this, or you have not to do this' and if the new institution cannot but do what the Reserve Bank says, where is the difficulty?

Dr. Trip: What would be the use of the new institution on behalf of business life and trade of the country, because they would not be a bank that could serve the interests of business life; they would be a part of the Reserve Bank.

Mr. Manu Subedar: The only difference would be this that the Reserve Bank's functions would all be performed by this new institution according to the directions of the Reserve Bank but in addition to that, this institution will have certain privileges which the Reserve Bank has not, namely of taking deposits and paying interest on it

Dr. Trip: That would be, in my opinion, absolutely unsound. You would practically take away what is in the Reserve Bank Bill at the moment that the Reserve Bank should pay no interest on their deposits. It would come to the same.

Mr. Manu Subedar: Now, if the two institutions kept separate and this new institution was empowered to take deposits and also to deal in bills on its own apart from what it does as agent of the Reserve Bank, then it would not take them.

Dr. Trip: You cannot keep them separate because you began by telling me that the separate institution would have to follow the instructions of the Reserve Bank; so they could not on the one hand do their own business in accordance with the instructions of the Reserve Bank and on the other hand on the principles of private enterprise.

Mr. Manu Subedar: That part of their work which has to be done in accordance with the Reserve Bank would have to be done even if it interferes with all their other desires, but where it does not so interfere, is there any objection to a separate institution doing it?

Dr. Trip: It would, in my opinion, absolutely be a mixture between the task of the Reserve Bank and the task of a private exchange bank. You can never mix up these two tasks in one institution. I am opposed to it.

Mr. Manu Subedar: Dr. Trip you were good enough to explain the effect of this proposed State Exchange Bank on the Reserve Bank as well

as on the Indian joint stock banks with regard to their deposits. Would you kindly tell us what the effect of the establishment of this institution would be on the exchange banks.

Dr. Trip: That is very difficult because it is not possible to see the future. In the beginning I am under the impression, but I cannot say of course, for certainty, that that influence would not be very great because the new institution would have to gain the confidence of the business people and at the beginning an institution always has to show its efficiency and the way in which it can do the business.

Mr. Manu Subedar: It will have to build up a personnel and it will have to establish itself properly and do you think all that would take about 5 years?

Dr. Trip: If the circumstances are favourable I don't think it would take 5 years. It might take perhaps two years. It depends on the man you can find to manage the business.

Mr. Manu Subedar: It will also depend on the extent to which the people engaged at present in foreign trade pass on their business to this new institution and breaking their connection with the institutions?

Dr. Trip: Whether they would be prepared to do that and whether they would think that they would be helped in as efficient a manner as they are helped by the present institutions would depend on the management of the new institution.

Mr. Manu Subedar: If the management is not efficient then the chances of this new institution getting hold of business in spite of all State help are small?

Dr. Trip: It depends on the efficiency of the working.

Mr. Manu Subedar: Would you expect a merchant to break his connection with a bank of his own nationality and go over to this bank without an inducement?

Dr. Trip: No.

Mr. Manu Subedar: An inducement would, therefore, have to be given and it would have to be a strong enough inducement on the part of this new institution?

Dr. Trip: It is not possible to tell beforehand how it would develop.

Mr. Manu Subedar: We have all the same, in spite of the difficulty of foretelling anything, to give an estimate as far as we can see. I would ask you whether you would expect such an institution to make a profit in the first or second year, or whether you would expect it to work at loss?

Dr. Trip: It is not possible to tell that beforehand. All I can say is that if there are no fair prospects that they will make profits in the second year after they have started their working, then I don't think it would be advisable to start it at the present moment. It is much better to wait until the prospects are better.

Mr. Manu Subedar: If it was started before the Reserve Bank, would you expect the constitution of the Reserve Bank to be materially different from what is proposed at present?

Dr. Trip: On the basis of this proposal, of course, the constitution would be different. I don't know whether it would have to be put in the constitution of the Reserve Bank but in any case this new institution would get the monopoly of the foreign exchange business of the Government and that should be indicated in some law.

Mr. Manu Subedar: If it is dangerous for Indian institutions to come into the field because the field is covered at present by strong well-established institutions would you suggest any other method by which Indians can enter the field, apart from this State institution?

Dr. Trip: No, not on a large scale. Perhaps strong Indian joint stock banks could try to establish relations with foreign banks.

Mr. Manu Subedar: I am now assuming that even that is very difficult and not necessarily profitable. Have you any proposal in the nature of participation by Indians in the existing institutions?

Dr. Trip: No.

Mr. Manu Subedar: Do you think it is possible?

Dr. Trip: I don't think it is possible. It is not practicable.

Mr. Manu Subedar: I am mentioning now that the proposal for participation does not affect the existing facilities and it does not affect the state of competition between them. It does not, therefore, affect the public at all. It does not affect trade and it does not involve State interference.

Dr. Trip: I do not see how it can be done.

Mr. Manu Subedar: I see. Now, Sir, I should like to hear what Dr. Trip has to say about the alternative scheme.

Chairman: A copy of Mr. Subedar's scheme was forwarded to you.

Dr. Trip: But I was not quite sure whether the Committee expected us to consider this scheme very thoroughly.

Chairman: Are you in a position to discuss Mr. Subedar's scheme with him?

Dr. Trip: I am prepared to discuss it. I must say however that I am not familiar with all the details. I thought it was given to us more as an appendix to the proposals.

Chairman: That is because the Committee itself were not prepared to support the scheme but at Mr. Subedar's desire it was sent on to you.

Mr. Manu Subedar: That is not so; may I say the Committee itself had no time to consider this; so whether the Committee would support it or not is unknown.

Dr. Trip: We got the impression, it may be wrong, that the basis of this proposal was outside the purview of our task. I read here that the basis of the proposal is that the main objection to foreign institutions is that they are foreign. I thought that was not a matter for us to consider. I am quite willing to discuss the scheme if we remain on banking principles.

Mr. Manu Subedar: I have put the scheme before the Committee. It is for the Committee to accept it or reject it. It has gone to the foreign gentlemen who have come over. It is for them to say whether they have any views to offer.

Dr. Trip: I think the main point of the proposal is that the existing foreign exchange banks should be turned into rupee banks and that at least 51 per cent. of that capital should be in the hands of Indians. We must say that we disagree with these two proposals. As we have already told you we are of opinion that compulsory measures in order to turn the present exchange banks into rupee banks would be detrimental to the position of these institutions, and that not so much in regard to themselves as in regard to their services to the country because that capital could be made as small as they like.

Mr. Manu Subedar: The conception is not that. The security will not be reduced because the suggestion is not that they should register another rupee company here and continue in existence a separate sterling institution, but it is that the whole organisation should move its head office to India, and turn its whole capital into rupee capital.

Dr. Trip: Let us take an instance. The Netherlands Trading Company would have to transfer its head office from Amsterdam to Calcutta.

Mr. Manu Subedar: If they like: there is no compulsion.

Dr. Trip: If they do not do so, they would no longer be free to work.

Mr. Manu Subedar: If they do not do it, they will be free to work in this country under the system of license, but they will not be free to open branches. and so on.

Dr. Trip: They will not be in a position to continue their work.

Mr. Manu Subedar: Do you think it would mean that?

Dr. Trip: I think so.

Mr. Manu Subedar: Perhaps you will allow me to tell him that before we took up the question of foreign trade among ourselves, a definition was fixed upon, and that definition is, as far as I remember, that foreign trade starts at ports in the matter of exports when the shipping documents are issued, and it ends at ports in regard to imports when the goods are cleared.

Dr. Trip: I did not read anything about it.

Mr. Manu Subedar: I am sorry it was not sent to you. It was on the basis of such a definition, which I believe the Committee with the exception of Mr. Buckley unanimously accepted, that we discussed the whole question of the financing of foreign trade. In view of this definition are there any recommendations or ideas you expressed this morning, which you would like to modify, or do they stand?

Dr. Trip: They all stand.

Mr. Manu Subedar: With regard to the scheme on which I am having the benefit of your views, there is no compulsory measure contemplated, but the idea is that these banks would think it worth their while to recognise the Indian desire to have a share in the financing of the foreign trade of their country and would by the method of rupee registration offer them participation or partnership, continuing their existing business as it is going on. giving the same security they are offering to the depositors and in every other respect possessing the same strength, the same personnel, and the same ability.

Dr. Trip: I can only see two possibilities: either the establishment of a rupee company with a limited capital and so the establishment of a bank far weaker than the present bank, or withdrawal from the country. In either case the banking interests of the country would be harmed.

Mr. Manu Subedar: How can they withdraw from the country? A good deal of their business is Indian business. What is your idea or information as regards the relation of their Indian business to their total business?

Dr. Trip: I cannot tell you. You would not be in a position to compel a foreign bank to transfer their head office to India. If you take compulsory measures against them in this country, they would be compelled to withdraw because they would not be prepared to transfer their head office to India.

Mr. Manu Subedar: In the case of the Netherlands Bank it may not be possible. Its shareholders and directors may not consider it necessary or desirable to do so because their Indian business is small.

Dr. Trip: It is always a question of considerations. Indian business may be an important part of their business, but if they think that the other parts of their business are more important they will decide upon that.

Mr. Manu Subedar: You are aware that the National Bank of India had at one time their head office in India and they did the same class of business as they are now doing and they found no difficulty either because their head office was in India or their capital was in rupees.

Dr. Trip: I do not know the history of the National Bank of India.

Mr. Lamond: They did find it difficult.

Mr. Manu Subedar: I have not seen any report.

Mr. Lamond: You find it in the Bengal report.

Mr. Manu Subedar: Do I understand that the National Bank of India, because they had their head office in India, found it difficult to get access to the London Money Market.

Mr. Buckley: Just so. It was brought out in the evidence that though the majority of the directors were then Indians, they found it in the interests of the Bank to change the rupee capital into sterling in order to get access to the London Money Market.

Mr. Manu Subedar: Was it in order to get access to the London Money Market, or was it the mints being closed, to save the shareholders the risks of exchange fluctuations?

Mr. Lamond: You find it laid down in the Bengal report.

Mr. Manu Subedar: I have read it and that was not the impression I gathered. If there is any other report which you have seen, I should be very happy if you would point it out. You agree with the view expressed by Mr. Buckley that a bank with a rupee capital in India would not find access to the London Money Market.

Mr. Currie: It can get access to the London Money Market, but not in the same way as an English bank can.

Mr. Manu Subedar: I thought the London Money Market was the World Money Market, and that it gives free access to everybody. I cannot understand the claim.

Mr. Currie: Naturally they know much more about banks with their head offices in London than they know of banks with their head offices in India, and this knowledge helps them to decide how many bills of a particular concern they will buy.

Mr. Manu Subedar: Even if there are other advantages, you would consider the handicap serious enough.

Mr. Currie: Yes.

Mr. Manu Subedar: Then in your opinion the institution which Dr. Trip suggested may be formed by banks in India, will have this very serious disadvantage.

Mr. Currie: It will have that disadvantage as compared with English institutions in the London Money Market.

Mr. Manu Subedar: That disadvantage will affect their success or failure.

Mr. Currie: I do not know. That institution would not only be dealing with the London Money Market, but it would also by its constitution have corresponding advantages in handling business of the banks who are its members.

Mr. Manu Subedar: You have been repeatedly asked under what conditions, with safety to shareholders, without disturbing the existing business organisations and business facilities as they exist in India, can an institution be brought into existence, in the ownership of which Indians will have a share. I should be obliged if you could help us in the difficulty which most of us have felt here.

Mr. Currie: We were of the opinion that the institution proposed by Dr. Trip would be such an institution.

Mr. Manu Subedar: But you see it will have this serious disability.

Mr. Currie: It will be so with any Indian institution.

Mr. Manu Subedar: Any foreign institution has got its father and mother, it has got its home market. it has somebody to fall back upon, but the Indian institution is an orphan.

Lala Harkishen Lal: An orphan before it is born.

Mr. Currie: It will have the Indian Reserve Bank to fall back upon.

Mr. Manu Subedar: The position is really this. Indian joint stock banks, as good banks, are anxious not to lose their money, and the Indian public would take very serious exception to their dabbling in a highly speculative project. There is in addition this serious handicap.

Mr. Currie: Take the other side. The existing Indian joint stock banks have a great deal of foreign business. The exchange business which they do not handle themselves they take to exchange banks. It seems only fair that you should want to have an institution of your own to do

this for you. If they start such a concern they will give their foreign exchange business to that concern.

Mr. Manu Subedar: The difficulty is this. Indian joint stock banks are unable even to secure a proper foot-hold in the internal business of the country, the cream of which goes to foreign institutions in the country. They have therefore to make headway in two directions: one is to secure a larger share of the internal business of the country, and the other is to secure some share of the foreign business of the country. I think they would regard their efforts much more hopeful in the first field—internal business—than in the other. I should also make it clear that the demand that Indians should have a share in the financing of the foreign trade is not one specially sponsored by joint stock banks; it is a demand sponsored by the public opinion of the country. Left to themselves, Indian joint stock banks may not form an exchange bank; they are acute businessmen and they might not go into a field full of danger and risk for themselves and their money, and if they do not go into that field, the position remains exactly as it is now.

Mr. Currie: Indian banks are after all the servants of the public, they know the feelings of the public, and they will be the first to form such a bank if there was a public demand.

Mr. Manu Subedar: The public demand is there. But it may not be sure of success and it may not want to shoulder greater responsibilities than it is discharging now, and this would not show that the public does not want some other servants in a different livery in the form of Indian institutions for the financing of foreign trade.

Dr. Trip: We are not aware of a public demand of that type.

Mr. Manu Subedar: We have seen it from the evidence placed before the Committee. Now with regard to my scheme, I interrupted you in the middle of your remarks for which you will excuse me, in order to clear two points, *viz.*, that the intention was not that a rupee company should be established, but that the whole business should be run as from India. I should now be happy if you will continue.

Dr. Trip: I must say your interruption has not changed my opinion. I think the whole scheme is from the first letter to the last a compulsory scheme, and I must stick to that opinion, and every man who reads your paper must be of the same opinion.

Mr. Manu Subedar: Will you kindly give me your views with regard to the inducements I have put down. I take it that in your opinion no foreign bank will want to register themselves in this country with Indian participation in their shares and work.

Dr. Trip: No.

Mr. Manu Subedar: I also feared that, and I have therefore suggested that various inducements should be held out. I should be obliged if you will give me your views with regard to them.

Dr. Trip: These inducements would not really induce foreign institutions to do what you would like them to do.

Mr. Manu Subedar: What are your objections to inducement No. 1.

Dr. Trip: I must say, as I see it, that it is not inducements which are given here that will affect the decision. People sitting in Yokahama, Amsterdam, or London, will have to decide on quite other grounds. These are institutions which do business over the whole world practically, and their world trade position cannot be considered from these points of view.

Mr. Manu Subedar: Apart from the effect on the minds of the people sitting in Yokahama, Amsterdam, or London, would you kindly tell me what consequences you would expect in this country from a provision of this kind? What would be its effect on the banking system in this country?

Dr. Trip: Banks would not think it profitable to work in this country or they would have to bring their own capital from their countries.

Mr. Manu Subedar: If the banks bring money would it not be to the advantage of the Indian money market?

Dr. Trip: It will be an advantage if the money brought here could be used in a useful way, but, considering what we have heard, I do not think that would be the case. If the deposits of 72 crores came from outside the money would have to find an outlet. I think it would have detrimental results. It would either lead to some kind of speculation or greater investment in Government securities, but in any case it would not help the country at large.

Mr. Manu Subedar: Would it not help the banks registered in India?

Dr. Trip: They would find difficulty in investing their money. Deposits are not always helpful. At the present moment in my country banks do not like to have more deposits.

Mr. Manu Subedar: If you think deposits are not always helpful to Indian registered banks, it may be so with regard to banks which have their headquarters abroad, and if some arrangement is made by which their deposits are displaced you would not sympathise with any complaints on their part.

Dr. Trip: I would, because they are in a position to use their deposits. If a bank is in a position to make use of its deposits it must have the opportunity to make a profit on them. If you place such a large amount of deposits in a bank that it can no longer use them, it will have to pay interest without having the opportunity to invest the money and it will not like it. In my country the deposit rate is as low as you can imagine, but still deposits come.

Mr. Manu Subedar: When we reach that condition we will request everybody to take deposits. Is it your impression by an examination of Indian joint stock banking that they have too much or too little of deposits?

Dr. Trip: They have enough deposits at the present moment because what I hear is that they have large amounts invested in Government securities.

Mr. Manu Subedar: You have no other objection to No. 1 except that deposits in foreign banks are in use and it is not desirable to displace them so that deposits may go to internal banks.

Dr. Trip: My objection is on principle. Such compulsory measures are unfair especially if they are taken with regard to institutions that are established here for many years and have given the country good service.

Mr. Manu Subedar: Do you think it is unfair for the Government of a country to tell its own subjects what it must do with its money?

Dr. Trip: Yes, I think so.

Mr. Manu Subedar: With regard to inducement No. 2 would you tell us what your objection is?

Dr. Trip: As we have explained in several of our papers we think that competition in banking should not be restricted by artificial measures, and that would be the case if such arrangements were made.

Mr. Manu Subedar: Competition is restricted in the internal banking with regard to foreign banks, but it is not restricted with regard to internal banks.

Dr. Trip: That does not alter the objection.

Mr. Manu Subedar: In a place where, let us say, there are four branch banks would the competition be better for the public if there were, instead of four, ten branch banks?

Dr. Trip: I won't say that. In any case you have to consider these things on broad lines. You cannot work on figures in this respect. But the general broad principle is that no restrictions should be imposed against competition.

Mr. Manu Subedar: There is not a place in India where there is not a branch of every foreign bank, and also more than a branch of Indian joint stock banks. Would you still say that it would be restricting competition from the public point of view?

Dr. Trip: I cannot understand that. I remember in the provisional conclusions on commercial banks there was a complaint that there are not enough branches in the country.

Mr. Manu Subedar: But we are not talking of the country. This clause, as you say, applies to branches of foreign exchange banks which have branches outside the limits of ports—there are 19 of them and where they all have their branches there you have branches of either the Imperial Bank or the existing joint stock banks. That being so, would you still say that it would be unduly restricting competiton.

Dr. Trip: Yes. These branches of foreign exchange banks are therefor some reason. They find there some work, and that proves that there is competition, and that competition works, in my opinion, to the benefit of the place and the country.

Mr. Manu Subedar: The existence of a foreign bank branch proves competition. Does not the existence of several Indian banks prove competition?

Dr. Trip: It is only a question of degree and kind of competition.

Mr. Manu Subedar: It is a question of degree of competition. Then it is not fundamentally objectionable.

Dr. Trip: It could not be so very harmful. I cannot say that in general.

Mr. Manu Subedar: Have you any other observations to make on No. 2.

Dr. Trip: I think such a provision will be harmful to the country. Foreign trade would certainly be damaged if all these branches were taken away. And it would be unfair.

Mr. Manu Subedar: Our definition, as I told you before, of foreign trade is that it stops at the port, and all else is internal trade.

Dr. Trip: You may make beautiful definitions, but they may not be in conformity with practice.

Mr. Manu Subedar: But in your opinion to restrict these branches would be harmful to the country.

Dr. Trip: Yes.

Mr. Manu Subedar: In what way?

Dr. Trip: Because we think that in the interests of the country the banks should be free to open branches where they think they can find profitable business.

Mr. Manu Subedar: The restriction of the freedom of banks, therefore, is harmful to the country?

Dr. Trip: Yes.

Mr. Manu Subedar: What is your objection with regard to No. 3, *i.e.*, the question of the control of institutions registered in India. We had your views on this; have you to add anything to it?

Dr. Trip: No.

Mr. Manu Subedar: What is your objection with regard to No. 4, *viz.*, "only banks registered in India should be eligible for rediscount and other facilities by the ReserveBank"?

Dr. Trip: Only the Reserve Bank can decide upon it after it has worked for a number of years. It must be absolutely left to the Reserve Bank.

Mr. Manu Subedar: If the Board of the Reserve Bank came to that conclusion, would you consider it wrong?

Dr. Trip: Under present circumstances, certainly very wrong.

Mr. Manu Subedar: Would you enlighten me with your reasons?

Dr. Trip: Because you have to take the situation of the country as it is at present. The present situation is that there are 18 or 19 strong foreign institutions working in this country who in our opinion do useful

work for the country and who should certainly not be excluded from the operations of the Reserve Bank. I think the Reserve Bank in its own interest would not take that decision.

Mr. Manu Subedar: But may I point out that the funds for the rediscount facilities which are being created out of the collection of credit in the country would be drawn partly from the deposits of banks and partly from the currency and other resources of this country, also from Government balances which would be all in this Reserve Bank. Any advantages arising from this situation therefore are directly contributed to by the State, and if we thought that it was not desirable to give the benefit of these advantages to foreign institutions, what is your objection?

Dr. Trip: As a matter of fact the funds are used on behalf of the country.

Mr. Manu Subedar: By whom?

Dr. Trip: By the foreign exchange banks.

Mr. Manu Subedar: They are used by the foreign exchange banks to make money.

Dr. Trip: No, they use them to do business in this country and doing business is in the interest of the country.

Mr. Manu Subedar: The foreign exchange banks would take advantage of the rediscount facilities and use them in the trade; that therefore is to the interest of the country?

Dr. Trip: Yes.

Mr. Manu Subedar: So would the Indian registered banks.

Dr. Trip: Certainly.

Mr. Manu Subedar: Therefore the country would receive it, whether it is done by a messenger in red coat or whether it is done by a messenger in green coat.

Dr. Trip: So they need not change their coats.

Mr. Manu Subedar: Apart from this, have you any objection on principle?

Dr. Trip: No.

Mr. Manu Subedar: It is purely on financial considerations that you say the Reserve Bank should not confine rediscount facilities to institutions registered in the country.

Dr. Trip: I think that reason absolutely sufficient. You have to adjust yourself to the position in the country. We have done so in the Dutch East Indies. The Java bank does not confine its rediscount facilities to banks that are registered under the Law and in the Dutch East Indies.

Mr. Manu Subedar: So that really speaking, arrangements are made in each country according to the immediate requirements and according to the position of the country.

Dr. Trip: Yes, according to what they consider in the interests of the country.

Mr. Manu Subedar: There is no ground of principle about it?

Dr. Trip: I should say no.

Mr. Manu Subedar: And if we follow the precedent of an advanced country like yours with very sound financial knowledge, we would be following very good principles?

Dr. Trip: Simply to follow them without taking regard of the situation of the country would not be wise in my opinion.

Mr. Manu Subedar: Apart from these four items, can you suggest any additional inducement which could be devised in order to persuade banks whose Indian business is foreign to convert themselves into Indian companies?

Dr. Trip: No, I do not think there could be any real inducements. If they think that it is in their interest, they would do it themselves.

Mr. Manu Subedar: You do not think that a situation may arise in which this result we are trying to obtain may be achieved?

Dr. Trip: Not as far as I can see.

Mr. Manu Subedar: According to you, therefore, this avenue is also closed to us.

Dr. Trip: Yes.

Mr. Manu Subedar: If as you say this avenue is completely closed —we have had also your views with regard to the measure which Mr. Chetty was defending—then the position is rendered much darker than either his school of thought or my school of thought considered.

Dr. Trip: I do not think that the position is dark at all from the banking point of view.

Mr. Manu Subedar: From the banking point of view you do not consider it necessary that there should be an institution or that there should be Indian participation in it?

Dr. Trip: No.

Mr. Manu Subedar: From the other points which do influence us, the position has become very much darker after what you have said and would probably justify a still stronger measure.

Dr. Trip: It is a possibility which I cannot concede.

Dr. Hyder: Your general position is that you are for unrestricted freedom.

Dr. Trip: Yes.

Dr. Hyder: I have a curiosity to look into the affairs of your own country and you will correct me if I am wrong. In your country the coal mining business belongs to the field of private enterprise, does it not?

Dr. Trip: Yes, to a certain extent. It was mainly so before the War and the State Mines were greatly developed when we could not get enough coal for our needs.

Dr. Hyder: The position was that you were depending upon German coal and when you found that some difficulties arose and German coal ran short, the Dutch people bade good-bye to all principles and said 'let us enter the coal business' and made a striking success of it in South Limburgh

Dr. Trip: They did not set aside any principle. I remind you that we advocated a Government institution for mining purposes.

Dr. Hyder: I only want to understand the facts. Take this matter of building societies. You know that the construction of houses generally forms a part of the private field of activity. But your State gave subsidies to Building Societies and they cut down the subsidies later.

Dr. Trip: Yes, I must tell you that that was the case and more still after the War when everybody was under the impression that the War had left the whole world much richer than before. But before the War there were no building subsidies. Certain grants were made only in order to remove bad houses, slums and such things.

Dr. Hyder: When the need arose the State in your country entered this field and subsidised private effort. Now, take this matter of the relation of the State to Industry. Your State granted dispensations to firms regarding the hours of work, that is to say, suspended all laws regarding hours of work so that your industries may be able to compete with foreign countries. There are two things involved in this, *i.e.*, your State abrogated a national obligation as well as an international obligation. Did your State grant dispensation from the Act restricting the hours of work?

Dr. Trip: The Act itself gives the possibility of dispensation to a certain extent.

Dr. Hyder: That is to say, the State judges each and every thing on its merits as it comes up, according to the time and special circumstances. Your State went to the length of abrogating the laws regarding the number of hours.

Dr. Trip: It was not an abrogation. If it is proved that the industry is starved, a temporary dispensation is granted in accordance with the Act itself.

Dr. Hyder: The Dutch State actually gave this concession and in this particular matter departed from an international obligation.

Dr. Trip: That was not an international obligation, because that obligation was not undertaken. It is not even now undertaken.

Dr. Hyder: Put it this way: they departed from a national obligation.

Dr. Trip: From the obligation they undertook themselves as a general rule but with the possibility from the outset of exceptions.

Dr. Hyder: They removed all the restrictions regulating the hours of work.

Dr. Trip: Not all the restrictions.

Dr. Hyder: As many as were contemplated, but they did grant dispensations from the Act regulating the hours of work.

Dr. Trip: Only so far as it was necessary for the industries to go on.

Dr. Hyder: I want you to let me know whether the Phillips electrical works at Eindhoven and the artificial silk industry at Breda had any form of State assistance.

Dr. Trip: Not as far as I know.

Dr. Hyder: Is your silk industry protected?

Dr. Trip: No.

Dr. Hyder: There is no duty on silk or on electric lamps?

Dr. Trip: No protective duty.

Dr. Hyder: Let us now come to the sphere of finance. This book on "Foreign Banking Syetems" by H. Parker Willis and B. H. Beckhart gives some instances which show that the Netherlands Bank takes purely Dutch national interests into account:

> "Especially in the last few years the Netherlands Bank has repeatedly shown that it seriously desires, as far as its position as the country's central credit institution and principles of sound policy allow it to do so, to co-operate with the other banks in trying to stimulate the Dutch acceptance business."

That is the Dutch interest.

Dr. Trip: Yes.

Dr. Hyder: Again:

> "Originally one of the Bank's rules was that bills in which foreign interests were involved were eligible for discount only if the discounting bank could prove that the bills also served a Dutch interest."

Dr. Trip: Yes.

Dr. Hyder: "In March 1925, however, this rule was altered, and the Netherlands Bank now only requires in cases like these that the bank in question in general keeps Dutch interests in view, and that the credits granted are not in conflict with Dutch interests."

Then you come down to the position that—

> "It is subject to certain restrictions among which is the condition that the banks in question must be organised as a firm or body corporate under Dutch law."

Why were these things done?

Dr. Trip: When after the War a great deal of money came to Holland, the Netherlands Bank thought it advisable and also in the interest of its own position to try to keep that money as far as possible in the Amsterdam market. Therefore they tried as far as possible to establish an acceptance market in Holland. In the beginning they did it only in a restricted way, *i.e.*, they restricted the transactions to those in the direct Dutch interest, but later they widened the scope and did not impose such strict conditions. Secondly, after the War there came into Holland a number of German banks and German firms to work in Amsterdam. Apart from any nationalistic principle, the Netherlands Bank thought it advisable for their own security that these corporations should at least be registered under the Dutch Law.

Dr. Hyder: For furthering the Dutch interest?

Dr. Trip: Not for furthering the Dutch interest alone, but also in order to know with whom they would have to work.

Dr. Hyder: But according to this law, they would have to register themselves as a Dutch firm if they want discount facilities from the Reserve Bank?

Dr. Trip: Yes, but not according to the Law.

Dr. Hyder: Would I be wrong in drawing the conclusion, as regards the State activity in Holland in general, that what is meat for Holland is poison for India?

Dr. Trip: It need not be the case, it depends on circumstances prevailing in each country. As I told Mr. Subedar, if a Reserve Bank was working in this country and if they took the same decisions as you quoted in regard to the Netherlands Bank, I should think it would be very unwise.

Mr. Manu Subedar: You would say that these measures were taken in the interests of the Dutch money market as a whole?

Dr. Trip: I would not say that the last measure was. The other measures were certainly taken in the interests of the Dutch money market.

Dr. Hyder: I take it that your general position is that you are for competition.

Dr. Trip: Yes.

Dr. Hyder: I take it that you would not object to the entry of more banks into India.

Dr. Trip: On principle I would not. I should only think it would be very unwise.

Dr. Hyder: Suppose four very powerful banks entered into India and there was the run of unrestricted competition. They not only operated at the ports, but spread over the face of the whole country. This morning you showed certain tenderness for our Indian joint stock banks, because you said that the entry of the State exchange bank would, in so far as it would take deposits, interfere with the development of the Indian joint stock banks. Was that your position?

Dr. Trip: Yes, in connection with the artificial help which the State Exchange Bank would enjoy.

Dr. Hyder: The general position being that you are for unrestricted competition, if powerful financial institutions were allowed to come into the country, either you accept the position or you say that no more institutions should come into the country. That is the position you took up when you said that a limit had been reached. Only two positions are possible with regard to the foreign exchange banks, either the limit has been reached or it has not been reached. If you take the position that the limit has been reached, that means that in substance you are for leaving the field as it is, the field of monopoly?

Dr. Trip: I do not see any monopoly.

Dr. Hyder: Therefore I take it that you do not stand by the statement you made this morning that the limit has been reached.

Dr. Trip: There are two possibilities. From a banking point of view my opinion is that there is at present no need and perhaps even no place, for another institution in that field. That does not mean that I would be in favour of restrictive measures. If one of the outside banks, let us say an American bank, would be short-sighted enough to try to come into the country, I think it would be unwise but I would have no objection. I only say that the field in my opinion is covered, because I do not think it would be of any use or advantage for foreign banks to come into this country.

Dr. Hyder: It may be short-sighted in the immediate present for a powerful foreign institution to come, because you think that the field is amply covered; but supposing the foreign institution takes a long-sighted view and thinks it should enter the field, the general position being that there is competition at the ports and that it has full freedom to cover the whole country. It thinks that it can afford to lose some money in order to benefit itself ultimately. I want you to consider that position. If it does so, the Indian joint stock banks would be knocked out of their business. It might adopt that policy to attract deposits from Indians and offer a higher rate of interest. When Indian banks are offering 4 per cent., it would offer 6 per cent., and as regards lending, if Indian joint stock banks lend at 6 per cent., it lends at 3 per cent. That would involve a loss for the bank in the immediate present, but supposing it has ample resources at its command, it would knock out and smash the Indian exchange banks. It would then say, the whole field is now with me; the rates for deposits now go down to 2 per cent. and for lending 8 per cent. Is this not the policy generally adopted by powerful institutions?

Dr. Trip: Sometimes.

Dr. Hyder: They might do it always.

Dr. Trip: Not in such cases.

Dr. Hyder: Do you not know how cartels and trusts and other such powerful corporations in the industrial and financial world operate? They are not all milk and honey, but deal powerfully with rivals. I take it then that you object to a State exchange bank, because you fear that it would detrimentally affect the Indian joint stock banks. Am I to understand that you are not against the entry of powerful foreign institutions who might knock out the Indian joint stock banks altogether?

Dr. Trip: If such an emergency arose and if such an inconceivable case really happened, then of course Government would have to step in.

Dr. Hyder: That is to say, Government should take the position that it is much better to sacrifice the Indian joint stock banks' business instead of their being murdered by foreign institutions. One would be a case of sacrifice and the other a case of murder.

Dr. Trip: Yes.

Dr. Hyder: Now there are four positions open to us and I ask you what your views are with regard to these four positions. You have become aware of the fact that somehow or other, whether rightly or wrongly, whether financially sound or not, the people in this country do want that they should have all sorts of modern institutions. Four positions are possible. The position that there have been exchange banks which have

been called into existence and maintained there by private initiative and enterprise by people who are prepared to lose their money. Would you be for or against this?

Dr. Trip: I would be in favour of it if there was reasonable prospect that they would not lose the money.

Dr. Hyder: Supposing the Indian public were to take up this position. There are about 19 powerful institutions—I do not mind whether they are foreign or Indian—If public opinion in India induced these banks who are already there, and by some moral force says, "put your hands together and associate yourself and make an associated effort and we shall see if you can get a purely Indian bank to do foreign exchange business". Would you be for or against it?

Dr. Trip: I would not be against it.

Dr. Hyder: Supposing, as things have been put to you this morning, these exchange banks turn round and say, "look here, we happen to know a little about this business; we know that we have to meet with strong opposition which quite justifiably would try to push the rival out of the business. Therefore, if it is the intention of public opinion that there should be some institution doing exchange business we expect a certain amount of help and since it is public opinion that demands it we say to you in return, let public opinion also to some extent lend us some help which means that they will shoulder some part of the sacrifices". Would you be for or against this position, the State being asked to shoulder some part of the burden in view of the dangers involved?

Dr. Trip: I would be against it because I do not see the dangers.

Dr. Hyder: You deny the existence of dangers in foreign exchange business?

Dr. Trip: I am not aware of the dangers, if I understood you well. You say, on the basis of public opinion you want to start an exchange bank?

Dr. Hyder: I am referring to the dangers from banks already existing in India.

Dr. Trip: That is why I say that I would advise them to wait till the Reserve Bank is started.

Dr. Hyder: Supposing a Reserve Bank is started then the position will be this. The associated banks will turn round and say, "we expect some help from the State because of organised public opinion". Would you be for or against?

Dr. Trip: If the help was given on a sound basis I would have no objection.

Dr. Hyder: What do you mean by sound help?

Dr. Trip: If no sacrifices are involved.

Dr. Hyder: There is competition for more land. Is there not?

Dr. Trip: Yes.

Dr. Hyder: And it is a high compliment to your country and your country has even dived into the sea in order to provide the 12th province. You know the effort was started in 1924 in order to provide more land for Holland. That is done under State assistance?

Dr. Trip: Yes.

Dr. Hyder: When the land comes into view, which I hope will be very soon, then the land will be given to the Dutch people; of course the Dutch Government will take ultimate ownership into their own hands.

Mr. Manu Subedar: You would not allow me and Doctor Hyder to stay there? (Laughter.)

Dr. Trip: Certainly. You are always welcome.

Dr. Hyder: I am proceeding step by step when you admit my statements but when I come to a point of a little possible sacrifice, you say it is cow's flesh, it is forbidden meat, and that the State should not render any help whatsoever.

Dr. Trip: You cannot compare Holland trying to get more land with the starting of an Indian Exchange Bank with State help.

Dr. Hyder: If by some chance I am invited to your country as an economic expert and I tell you "why do you waste your money in all these matters unnecessarily; we shall send you excellent wheat from India and the near East and cattle" and so on. If I say so, I am sure your people will not have any regard for me as an expert.

Dr. Trip: When this plan about the creation of a 12th province was started it was the conception that it would be a paying proposition. In any case, as I said the two questions cannot be compared.

Dr. Hyder: Let us now proceed to the last of my propositions. If public opinion in this country after making effective efforts were forced to come to the conclusion that a purely private effort would not produce any result even by an associated effort by banks and that an organised effort by the State would only be feasible, do you consider it right or wrong?

Dr. Trip: I would not say that it would be absolutely wrong in all circumstances. I, however, would say that there is so much to be done in this country of a more urgent and of a more public character that I should think it unwise and unfair in respect of the existing banks to use public funds for starting an exchange bank.

Dr. Hyder: Then I take it that you take your fundamental stand on the *status quo* and say that this country is amply served by the existing institutions.

Dr. Trip: My answer is, wait and see. If the present depression will be over then I see really the possibilities of a great development of this country and then in my opinion the time will be there for Indian joint stock banks to try to enter the field with the co-operation of the Reserve Bank.

Dr. Hyder: Then I suppose you will say that when the present exchange banks flourish further and more foreign banks come into the country and look after the financing of the foreign trade, even then your view will be that there is no need for another Indian institution. Is that not so?

Dr. Trip: Why not? I expect conditions will improve in the future when there will be more room.

Dr. Hyder: I take it that you take interest in the Dutch scenery. The coming into being and growing of a forest by the free action of the wind in taking seeds is possible, but such a process is exposed to the

ravages of the grass cutter, the cow, the greed of the individual householder and so on and no forest would spring at all, but the State foreseeing all this arranges for its protection by the planting of seeds and looking after it for its more guided and systematic growth. Applying this principle to the field of finance and banking, if public opinion in this country were convinced ultimately that an associated effort by the banks would not be of any avail if the State's hands were off would you be in favour of this or not?

Dr. Trip: In regard to banks, I am certainly against the idea.

Dr. Hyder: Thank you. But I might say that you are recommending to us as an expert what the Netherland Bank did not recommend in its treatment to German banks that came and settled there.

Dr. Trip: Because I have to take into consideration the different circumstances of the countries.

Dr. Hyder: Your view possibly is that there are special circumstances for this country alone. Give us a suggestion then for the development of this country consistently with what Dr. Jeidels was pleased to call "Efficiency, National Policy and Competition". Have you got to say anything about these three things?

Dr. Trip: I would only advise you to wait until better circumstances arise and then Indian joint stock banks should see their way among themselves with the co-operation of the Reserve Bank to start an Indian exchange bank.

Mr. Devadhar: Is your objection to the Indian exchange bank being started by Government or State based on the ground that it is more difficult?

Dr. Trip: I do not believe in the State having anything to do with the bank.

Mr. Devadhar: In all matters dealing with finance and expenditure, I think we all recognise that National sentiment plays an important. Would you allow that to play in this consideration?

Dr. Trip: I am not here to consider that. I am here only to say what is sound.

Mr. Devadhar: For the promotion of National interests we sometimes advocate the principle of sacrifice. Is it unsound in the long run?

Dr. Trip: I think it must be unsound in the long run. I am perhaps old-fashioned but I am a free-trader.

Mr. Devadhar: Is your objection based on the consideration that the extension of this banking business in the direction of the foreign trade of this country is rather premature or is it due to the precarious character of the business?

Dr. Trip: I think it would be harmful to the interests of India at the present juncture. I think it is premature.

Mr. Devadhar: Would you also say that it is precarious?

Dr. Trip: That depends upon how it would be done, but, as I said, it would be inadvisable from the standpoint of the Indian taxpayer to use State funds for the purpose of financing the foreign trade.

Mr. Devadhar: Do you ever contemplate any time when an Indian State exchange bank could be formed?

Dr. Trip: I do not foresee any time when a State exchange bank could be formed.

Mr. Devadhar: You probably know that there is at present a demand for Indianisation all round and would you not make any concession for that universal demand in this respect?

Dr. Trip: This is not a matter with which I am concerned. I cannot consider the situation of this country from that point of view.

Mr. Devadhar: Have you thought of any possibility of a compromise or understanding being effected between the existing exchange banks on the one side and their readiness to take into this business some of the Indian joint stock banks who have really some grievance. The exchange banks are already aware that there is a good deal of feeling against the exclusion of Indians?

Dr. Trip: I do not think that you can expect business concerns to take such considerations.

Mr. Devadhar: So, you would leave them to continue the same bitterness and strife as at present?

Dr. Trip: That is quite a different question. That does not lie within my purview.

Ch. Mukhtar Singh: We were told by an expert Indian banker that for the success of the Indian exchange business the goodwill of the existing foreign exchange banks is necessary if an Indian joint stock bank thought of doing exchange business in this country. What is your view?

Dr. Trip: I do not agree with the idea. I do not see the point. I think that an Indian exchange bank could succeed without the goodwill of the foreign exchange banks working in this country.

Mr. Ramdas Pantulu: I have only one question. Do you consider the reserves of the country should always be dependent on the facilities afforded by non-Indian institutions?

Chairman: The point is this, Mr. Ramdas wants to have your opinion on this proposition. Supposing in the first paragraph, in the first sentence the word 'not' is cut out and it then reads as follows: We consider that it is desirable that the country should be dependent for all time (as suggested by Lala Harikishen) on the facilities afforded by non-Indian institutions for financing of foreign trade. Will you accept that as correct?

Mr. Ramdas Pantulu: I am asking this question for this reason, because I know your advice is not detrimental to our interests and also, would you prescribe the positive form?

Dr. Trip: No.

Mr. Ramdas Pantulu: Therefore you don't think that there is anything wrong in formulating some scheme whereby the financing of foreign trade will be gradually got into Indian hands?

Dr. Trip: If it is done on a sound basis I have no objection.

Mr. Ramdas Pantulu: So your objection is to the method?

Dr. Trip: Yes.

Mr. Ramdas Pantulu: In that case I do not understand your objection to the form in which the answer is put. The conclusion as put here is objectionable but if you say that it is a sound scheme to take over the foreign trade into Indian hands, the conclusion as put here without any reference to paragraphs 4 and 5 seems to me absolutely unobjectionable.

Dr. Trip: I can only say that I do not object to the first paragraph. I only said that there were no arguments given.

Mr. Ramdas Pantulu: So you only object to the abstract statement contained in the first paragraph?

Dr. Trip: I want to know the arguments.

Mr. Ramdas Pantulu: Argument No. 1—the natural desire for the growth of the share of Indians in the financing of foreign trade, is legitimate. Argument 2—the statement that India should be dependent for all time on the facilities of non-Indian institutions for financing of foreign trade, is not justified?

Dr. Trip: No.

Mr. Ramdas Pantulu: Therefore the third proposition is that it is not desirable that the country should be dependent on non-Indian institutions for financing of foreign trade.

Dr. Trip: It is quite a different thing. You cannot take this first provisional conclusion without any relation to the other conclusions. It is only an introductory conclusion.

Mr. Ramdas Pantulu: By itself you don't object?

Dr. Trip: I would not object if Indians took steps to get a share of this foreign exchange business on sound lines and without artificial help.

Mr. Ramdas Pantulu: Therefore the first conclusion in itself does not prescribe any method by which you could wish to get that trade into their hands?

Dr. Trip: No, but this conclusion, as it is here, leads to the conclusion that steps should by all means be taken at once in order to change the position and for such steps I see, under the present circumstances, no reason.

Mr. Ramdas Pantulu: I don't think you are right in your surmise that steps are intended to be taken immediately.

Dr. Trip: For a practical Committee, as your Committee is, if they state that it is not desirable that a certain situation should continue, then I take it that you would advise to take steps to change it.

Mr. Ramdas Pantulu: Yes, but the steps would be by gradual improvement and to ensure the natural growth of India's foreign trade. The steps would be the correction.

Chairman: Dr. Trip's point is that No. 5 must be done in two year's time. I think if you were to say here 'dependent for all time' then Dr. Trip would absolutely accept No. 1.

Mr. Ramdas Pantulu: I say it is not desirable.

Chairman: If you say it should be dependent, that means it should be dependent now, therefore the Committee does not consider that it should continue to be dependent even for a single day. That is apparently what Dr. Trip wants to point out and that is the reason why Lala Harikishan Lal said 'for all time'.

Mr. Ramdas Pantulu: I am only asking this question without committing myself for anything that follows. We aim at certain things and we may have a certain idea. But to work out that idea in practice is a different matter. Therefore I will ask you not to consider the following paragraphs but consider the desirability of Indians getting into their hands gradually the financing of foreign trade. To that you have no objection?

Dr. Trip: Certainly not. If you keep provisional conclusion No. 1 and you went on with my scheme and even what is in conclusion No. 6, I would have no objection.

Mr. Ramdas Pantulu: Do you think as a practical banker that an Indian exchange bank can be organised and run by private enterprise and that it can successfully compete and do profitable business, with the existing exchange banks in the field as its competitors, without any extraneous agent?

Dr. Trip: Generally speaking and apart from the present situation of depression I should think yes.

Mr. Ramdas Pantulu: Why I am thinking of altering the recommendations in the subsequent paragraph is this—I have not examined the merits of a particular scheme as to what kind of exchange bank should be started I have an open mind. But I have two alternatives before me. If Indian enterprise is to succeed, there should be discrimination against the existing interests and certain restrictions should be placed upon the organisations of existing joint stock banks that I am not in favour of, because it would raise a question of discrimination. The other thing is that without discrimination the working of commercial and banking interests in this country as well as the Indian enterprise can be promoted and encouraged by giving some form of public assistance to Indian banking and other concerns. I thought this scheme might work in that direction without in any way interfering with the existing foreign banking interests of this country. Something must be done to promote Indian concerns in exchange business and also lay the foundation for the future development of Indian business in the financing of foreign trade. That is what I tried to give as the reason. Am I wrong in subscribing to this other principle?

Dr. Trip: I think you are wrong because I tried to convince the members of this Committee that these artificial measures would practically be unfair and unsound. You are against discrimination, but whether you apply discrimination in one way or the other way it is practically the same. If you give Government help or give a monopoly for certain kinds of business to one institution then that is, in our opinion, discrimination.

Mr. Ramdas Pantulu: I thought, when I read about the safeguards of commercial interests, that you gentlemen were going to say that even some kind of positive help to Indian concerns will come under the purview of discrimination.

Dr. Trip: That is a legal question. I said that it would be an unsound and unfair act. It is not the question whether it comes within the definition of discrimination as will be given by the constitution.

Mr. Ramdas Pantulu: There is a third alternative—one way of developing Indian banking concerns is either to break the monopoly interests here or to give positive help to the Indian concerns.

Dr. Trip: I do not agree with you when you say there is monopoly. I told you before that if the conditions were better than they are at present I could not see why an Indian exchange bank could not find a field for

their work. As long as this is the case I cannot really see that there is monopoly. You could also say there is monopoly for Indian joint stock banks.

Mr. Ramdas Pantulu: There are powerful vested interests here which operate against the development of Indian concerns. Then there are only two ways of helping Indian concerns, either by restricting the rights enjoyed by the vested interests or giving positive help. You think both are unsound?

Dr. Trip: I am only concerned with the interests of the country and I think the interests of the country are served quite well under present conditions.

Mr. Ramdas Pantulu: Then there is no necessity to start an Indian Exchange Bank.

Dr. Trip: From a banking point of view, under present circumstances, no.

Mr. Ramdas Pantulu: Will you kindly tell me what circumstances would justify the starting of an Indian exchange bank?

Dr. Trip: When the foreign trade of the country has developed to such an extent that there is place for another competitor in this field. There is the possibility, of course, that if the foreign trade of the country expands and increases the Indian joint stock banks can avail themselves of these circumstances to start a new foreign exchange bank.

Mr. Ramdas Pantulu: It may not expand to such an extent that the existing exchange banks would not be able to deal with it. The resources of the Exchange Banks are huge. If your proposition is right the time has come when the existing banks potentially as well as actually will not be able to deal with the financing of India's projects.

Dr. Trip: That is not the question. I only say that at the present stage of development of foreign trade this country is served well by the present institutions. If you have an expansion, the present institutions could finance that excess business; or you could start a new institution.

Mr. Ramdas Pantulu: I cannot follow your logic for this reason. You say at present there is no need to start another exchange bank. If the expansion is such that can also be dealt with by the exchange banks then why should the necessity arise for a new bank?

Dr. Trip: Then there would be a place for a new bank.

Mr. Ramdas Pantulu: I can only say I cannot agree. You said that if the foreign exchange banks did not operate here and did not receive deposits, money cannot be used for the country's benefit. Is it your opinion that there is no outlet for the money in the country.

Dr. Trip: In future, of course, there would be the possibility but not in the beginning because although there may be certain possibilities for more credits, the needs of these credits cannot be covered by the joint stock banks. The Indian joint stock banks under present conditions could do more credit business if they kept less Government securities.

Mr. Ramdas Pantulu: Have you made any rough estimate of the needs of Indian banks in this country, *e.g.*, land mortgage banks?

Dr. Trip: I think that the field of land mortgage banks is quite different and there are so many special circumstances with regard to that field that I don't think it can be discussed at this stage.

Mr. Ramdas Pantulu: I will give you one illustration.

Dr. Trip: You cannot expect joint stock banks to lock up their money in mortgages.

Mr. Ramdas Pantulu: I am speaking of the money of investors.

Dr. Trip: But do you think that these deposits with the foreign exchange banks would be used for giving mortgages?

Mr. Ramdas Pantulu: I am asking you.

Dr. Trip: No, I don't think so because that is not money for investment purposes.

Mr. Ramdas Pantulu: People do not put their money in . . . .

Dr. Trip: That may be, but generally speaking you cannot say that deposits are money for long-term investments.

Mr. Ramdas Pantulu: How do you differentiate between the money of a man who has surplus money from that which goes into a joint stock bank or that which comes into a land mortgage bank?

Dr. Trip: The money that goes into the land mortgage banks is the money that the owner wants to invest in long-term securities.

Mr. Ramdas Pantulu: In my province many lawyers and merchants and school-masters who have put their money into joint stock banks have converted it into debentures the moment I asked them and they were satisfied with the mortgage banks.

Dr. Trip: That is a question of the education of the people.

Lala Harkishen Lal: I got this morning this journal called "The Indian Journal of Economics", January 1931, and I came across the first article which is called 'Some Lessons from Foreign Banking System' by B. Ramachandra Rau, Calcutta University, a man who has made a special study of banking. He has taken some pains and he says "it has now been recognised in all countries that a forward exchange market is essential for exchange stability". That is on page 262 under banks and the exchange market. Is he wrong or is he right?

Dr. Trip: He is right.

Lala Harkishen Lal: "Abnormal methods of controlling exchange rates have been found to be ineffective". Is that right?

Dr. Trip: I do not know what he means by abnormal; so I cannot say.

Lala Harkishen Lal: "The stabilisation of exchange is a thing that tends to establish itself and without such stabilising conditions it is impossible for a long time to restore sound conditions".

Dr. Trip: In the long run, he is right.

Lala Harkishen Lal: "In the advanced countries the perfection of the forward exchange market has become so complete that it actually dominates the spot rates and in case of the sterling-dollar rates we witness such a phenomenon". Is he right there?

Dr. Trip: I cannot say.

Mr. Cassels: I should say he is practically right.

Lala Harkishen Lal: ". . . . necessity on the part of merchants to realise that it is wise to eliminate exchange risks apart from trade risks are the predominant factors in the case of an established forward exchange market". Is that right?

Dr. Trip: Yes.

Lala Harkishen Lal: Have you enquired, so far as these 18 banks are concerned as to how much speculation they do in exchange—have you any figures for that?

Dr. Trip: No.

Lala Harkishen Lal: I am told just now that in 20 years the volume of exchange as well as of purchases is 10 times what it used to be.

Dr. Trip: They must be more now than they used to be.

Lala Harkishen Lal: Well let us take that the volume of trade is more.

Dr. Trip: The price level is also higher but since several years there has been a price-fall, more gradually than now, that is to say since 1924—not for all the products because in 1925 you had the rubber boom. The tendency of a price-fall has been for a good number of years.

Mr. Rushforth: There is a simple explanation and that is that about 10 years ago owing to the uncertainty of the exchange, you fixed your exchange on both sides of the book. Nowadays when there is not so much fluctuation you just fix balances.

Dr. Trip: That is right; the exchange was not stabilised then.

Lala Harkishen Lal: I was coming to that. The exchange some years ago was not stabilised and there it had recovered and for the advantage of goods.

Dr. Trip: For the trader.

Lala Harkishen Lal: And also banks, unless they found some money in it, would not make future contracts with the traders.

Dr. Trip: If they could cover themselves they would do that.

Lala Harkishen Lal: They would not do buying and selling simultaneously as Mr. Rushforth says, unless they found some money in it.

Dr. Trip: Yes, of course.

Lala Harkishen Lal: Therefore all that money does not come to us. All those profits of exchange done for the sake of many huge contracts on both sides by the 18 foreign banks were at our cost.

Dr. Trip: They would always be at your cost.

Lala Harkishen Lal: Naturally at our cost because when traders in India buy and sell from the same party and those contracts are made for leaving some money in the hands of the foreign banks that is a tax on us.

Dr. Trip: I do not see that. The trader is bound always to pay the tax whether you have Indian banks or foreign exchange banks.

Lala Harkishen Lal: But that money does not come to us.

Lala Harkishen Lal: We consider that it is not desirable that the country should be dependent on the facilities afforded by non-Indian Institutions for the financing of foreign trade. There is no question of exchange. The words there—financing of foreign trade—are distinct and distinguishable from exchange. Exchange means remittances to and fro, to cover payments. Financing is different from covering payments. Therefore all profits, so far as exchange is concerned, have gone to foreign banks. Financing of foreign trade must be done with domestic funds and it is the bounden duty of the central bank indirectly to secure this ideal through the intervention of joint stock banks or banks specially created for the purpose. Do you agree with the proposition?

Dr. Trip: No, not in a general form.

Lala Harkishen Lal: In which form?

Dr. Trip: It depends on the situation of the country. If you have banks registered under the law of the country which are in a position to finance foreign trade to the full extent then of course the Reserve Bank would continue its facilities to such banks but if the situation is different then it has to adjust itself to like circumstances.

Lala Harkishen Lal: There are agencies of foreign banks in this country, how could the central bank control them? They are independent of the central Bank.

Dr. Trip: Whereas the Central Bank in Holland is in a position to limit its facilities to banks registered under the Dutch law, the Central Bank in Java is not in a position to do it.

Lala Harkishen Lal: The Central Bank should do exchange business by means of agencies. Is that your proposition?

Dr. Trip: No.

Lala Harkishen Lal: That means joint stock banks or bankers of the country may have agencies in other countries and *vice versa*. That is your idea by which we can get into this business. But how does the Central Bank come in that arrangement?

Dr. Trip: The Central Bank comes in by restricting its discount facilities to a certain type of banks.

Lala Harkishen Lal: You mean to say, that if a bank offends against the canons of the Central Bank, it should be punished.

Dr. Trip: We do not understand each other. I say that the Central Bank could only help by limiting its discount facilities to joint stock banks of the country. I cannot see how it can be done otherwise.

Lala Harkishen Lal: That means the financing of foreign trade must be done with domestic funds. That means that the bills of exchange of such banks ought to be discounted by the Central Bank.

Dr. Trip: Yes.

Lala Harkishen Lal: When I put it to you first, you hesitated, but now you agree.

Dr. Trip: If it is possible for the Central Bank to do it, and if it would not harm the interests of the country, then I agree.

Lala Harkishen Lal: You agree with this, except that in certain countries circumstances may not be as good as contemplated here.

Dr. Trip: I do not say "as good as", but 'not the same'.

Lala Harkishen Lal: You would not apply it to India.

Dr. Trip: Not under the present circumstances.

Lala Harkishen Lal: What are the special features of the circumstances.

Dr. Trip: There are practically no joint stock banks in the country which can do the business.

Lala Harkishen Lal: You yourself said that it could be done by the agency method. You mean to say that the present joint stock banks in India cannot have even agencies or agency relations in other countries to do this business.

Dr. Trip: They could have, but they do not have at the present moment.

Lala Harkishen Lal: If they could have, then you will not say that there are special circumstances in India in which this generalisation will not hold good.

Dr. Trip: I should have to consider the position which would have arisen under these circumstances, but I cannot see the possibility of Indian joint stock banks establishing agencies abroad in a short time in order to finance the whole foreign trade of the country.

Lala Harkishen Lal: It is not a question of whole or half.

Dr. Trip: Upon that will depend the decision of the Central Bank.

Lala Harkishen Lal: You are assuming something which we have not contemplated in the 5 clauses.

Dr. Trip: You are assuming that the Indian joint stock banks have their agencies abroad. They do not have them.

Lala Harkishen Lal: I do not say, they have, I said, provided they have; you accept the principle laid down in the first four lines.

Dr. Trip: I cannot by any means foresee that joint stock banks in this country could establish agencies in the near future in order to finance the whole foreign trade of the country.

Lala Harkishen Lal: The word 'whole' does not come in.

Dr. Trip: If the Central Bank should follow that policy it must be sure that the whole foreign trade can be financed.

Lala Harkishen Lal: We must not mix up our ideas. I asked you, not many minutes ago, that if joint stock banks in India opened agencies, *i.e.*, opened relations with banks in other countries in order to handle this business and *vice versa*, how the Central Bank could come in. Then you explained that the Central Bank could come in in the matter of discounting foreign bills to and fro.

Dr. Trip: This is quite a different proposition from saying that it should be restricted to Indian joint stock banks. It should not be restricted as long as the Central Bank has got the conviction that the foreign trade can be financed in that way efficiently.

Lala Harkishen Lal: Would you kindly read this again. I asked you 3 or 4 questions. I asked you whether the paragraph conveys the idea that the Central Bank should issue licenses or control the actions of joint

stock banks, which have relations outside India. You said, 'No'. Then I asked whether it could help by discounting bills; you said, "Yes". Having said that, does it not mean, if you agree with these remarks, that at present, because we have not got any exchange bank of our own, doing exclusively exchange work or mainly exchange work, but have the privilege of opening agency relations with outside banks and *vice versa*, you think that it is one of the ways by which we could do this business.

Dr. Trip: Certainly.

Lala Harkishen Lal: Central Banks could not interfere except lending a little helping hand by means of discounting facilities. Both the U. S. A., and Japan—the latter in a less degree than the former—have succeeded in developing a special banking machinery to finance their exports and imports with the help of domestic resources. Do you agree with that?

Dr. Trip: Yes.

Lala Harkishen Lal: Having regard to this would you kindly now advise us as to the wording of these five clauses. We might have used loose language which does not fit in exactly with the scheme that you have in view or with the possibilities that you have in view. Instead of really discussing at length from various points of view would you kindly tell us how you would word paragraph 1.

Dr. Trip: Perhaps with regard to paragraph 1, I could do it, but not with regard to the other provisional conclusions. There the differences are on principle.

Lala Harkishen Lal: I have no objection to that. If there is a difference on principle we will have two statements, one from you and one from me. So long as no principle comes in would you kindly draft for me.

Dr. Trip: For para. 1, read as follows:

> We consider that it would be desirable if on sound lines and without using artificial measures Indian institutions or Indian joint stock banks could find their way to establish an Indian exchange bank.

Lala Harkishen Lal: Let us take provisional conclusion No. 3. We have no difference of opinion so far as the first part is concerned, *viz.*, "Further, in view of the fact that the chances of the successful entry and operation of such an institution depending upon private initiative and enterprise are meagre".

Dr. Trip: No.

Lala Harkishen Lal: The next part is "we are of opinion that the said institution must exclusively handle the work connected with the foreign remittances of Government". Evidently you mean that Government should not exclusively hand over this work, but it should be dealt with in the market in the ordinary way.

Dr. Trip: Yes.

Lala Harkishen Lal: Would you omit these words, or modify the sentence?

Dr. Trip: I do not see how to modify it.

Lala Harkishen Lal: The next portion is: "It is understood that when the Reserve Bank is established, the Reserve Bank will take the place of the Controller of Currency in deciding the rate of Government remittances". Would you omit this portion also?

Dr. Trip: We disagree on the principle and the words are not clear to me.

Lala Harkishen Lal: Would you make them clear?

Dr. Trip: I think Government will have to decide the rate of remittance. If and when the Reserve Bank is established, the Government must keep the question of the rate in its own hands.

Lala Harkishen Lal: You will say that the present practice of Government dictating the terms should continue?

Dr. Trip: In any case they should control it, so that they may be in a position to raise objections if necessary. If they think that the rate as calculated by the Bank is not correct, they must have the right to object.

Lala Harkishen Lal: The idea is that this process precedes the settlement. Now they get the tenders; Government fix the price of the tenders and on that they accept or reject. This does not make any change in the method.

Dr. Trip: In this case the Reserve Bank's opinion ought to be in conformity with the opinion of Government.

Lala Harkishen Lal: It is very likely that the Controller of Currency would also be supplied informally with the views of Government.

Dr. Trip: I do not know if the Controller of Currency will remain in function after the Reserve Bank is established.

Lala Harkishen Lal: Now it is in the hands of the Controller of Currency and he calls for tenders.

Dr. Trip: He is the representative appointed by Government.

Lala Harkishen Lal: Then the Reserve Bank would be exactly in the same position *qua* Government in this matter.

Dr. Trip: It is not so in my country, because the Reserve Bank is not the Government itself. So I think it should be the Government that would finally control even the Reserve Bank as regards the rate of Government remittances.

Mr. Lamond: I think it is intended to mean that the rates would be fixed through the Reserve Bank. It will be passed on through the Controller of the Currency.

Lala Harkishen Lal: Clause 28 of the Reserve Bank Bill refers to this.

Dr. Trip: It only refers to the tender system.

Mr. Lamond: Government now fix the rate through the Controller of Currency.

Dr. Trip: The Reserve Bank will be the agents that sell to Government and Government ought to control the other party in the transaction.

Mr. Lamond: It will be done in consultation with them.

Dr. Trip: Therefore the sentence is a little confusing.

Lala Harkishen Lal: Would you put it right?

Dr. Trip: I would leave the sentence out.

Lala Harkishen Lal: You will not bring in the Reserve Bank to control in this particular recommendation, namely that the remittance work should be handed over to the new institution? Even if it is handed over, we intend that the Reserve Bank should have its say in this matter. It is the intention that when the Reserve Bank is started the remittance work should be controlled by them as the remittance business is now controlled or guided by the Controller of Currency.

Dr. Trip: "It is understood that the Reserve Bank when it is established will, in consultation with Government, decide the rate of Government remittance".

Mr. Lamond: That is different altogether.

Chairman: As I understand the position, it is the Reserve Bank which will settle the rate for Government remittance, though there will be a sort of general control and responsibility of Government over the operations of the Reserve Bank.

Dr. Trip: That is not the position in my country. The rate at which Government remittance is made in my country is decided upon by Government in consultation with the Reserve Bank. Government are buyers and the Reserve Bank are the sellers. Government ask at what rate the Bank can remit for them and the Bank tell them the rate. If they agree, the Bank remit; if they do not, the remittance is not made but agreement is in practice always reached.

Lala Harkishen Lal: Would you like to say that the remittance business should be in the hands of the Reserve Bank instead of in the new institution that we propose to create?

Dr. Trip: That is my opinion.

Lala Harkishen Lal: Would you like to put that in?

Dr. Trip: I do not want to put anything in.

Lala Harkishen Lal: If we knew the exact wording we can easily find out the difference of opinion between us.

Dr. Trip: If I were in your position, I should propose to leave out the whole of the passage after the word "meagre".

Lala Harkishen Lal: Even after the extreme views you have expressed, we have left the power in the hands of the Reserve Bank. Will you please let us know how the Reserve Bank is to come in?

Dr. Trip: You must give the Reserve Bank only the power of control. It is understood that when the Reserve Bank is established, they will control the activities of the Indian institution.

Lala Harkishen Lal: This is the next conclusion; No. 4:—

> "The State should subscribe the share capital of the bank at the start, and 10 years after the establishment of the bank the question of issuing shares to the public may be reviewed by Government."

Would you be satisfied if it is stated that the State should in the first instance subscribe the share capital of the bank and sell it in the market as soon as practicable?

Dr. Trip: I would not agree to it.

Lala Harkishen Lal: What would you say? Would you say that it should be subscribed for by private people and Indian joint stock banks?

Dr. Trip: I should prefer to put in the Indian joint stock banks alone. I am not correcting these provisional conclusions and I am not committing myself one way or the other. So I do not see any use in your questioning me about this.

Lala Harkishen Lal: I shall explain to you the use. We have spent three or four hours on these four conclusions without coming to any definite mutual understanding. In one place you have put in that Indian joint stock banks should work out the scheme under the guidance of the Reserve Bank.

Dr. Trip: I do not really see the use in my trying to change these provisional conclusions. I say it once more that we disagree fundamentally and on principle with these conclusions. What is the use of asking a man who has made that declaration to amend them?

Lala Harkishen Lal: We have submitted these clauses to you for your opinion and all that you said in regard to the first five conclusions was that we have not assigned any reasons. That was your principal criticism.

Chairman: That referred only to item 1. With regard to the others, Dr. Trip said that he did not like the scheme. In the course of discussion he also said that if at all a scheme was wanted, that scheme ought to be undertaken by joint stock banks and after the Reserve Bank was established by the Reserve Bank. Could we not put those words in?

Dr. Trip: I do not see any use in putting them in. We have not come here for drafting these conclusions. I have given my ideas.

Lala Harkishen Lal: Your idea is that in place of No. 3, if we really insisted for your view, you would suggest that only Indian joint stock banks should do it under the control of the Reserve Bank.

Dr. Trip: I gave it in regard to the first conclusion.

Chairman: Yes, he said "If on sound basis and without using artificial means Indian joint stock banks would find their way to establishing an Indian exchange bank".

Lala Harkishen Lal: Conclusion 5: "The proposed bank should be established in the next two years irrespective of the simultaneous establishment of the Reserve Bank". This is the view the Committee have provisionally taken. Your view is that it should be done by joint stock banks even after the Reserve Bank is established.

Dr. Trip: It is only an advice.

Lala Harkishen Lal: We should not act upon the advice until the Reserve Bank is established?

Dr. Trip: Yes.

Lala Harkishen Lal: You used the word 'sound'. Would you kindly explain what this word means? Do you mean that the people behind it should be of a particular class, or that the business should be done at a remunerative rate, or that there should be plenty of capital?

Dr. Trip: In this respect it only means that it should be done by private enterprise.

Lala Harkishen Lal: What did you mean by 'efficient?' You only had in view the rates charged?

Dr. Trip: Good management and, the rates charged.

Lala Harkishen Lal: Good management of exchange would be good management of the bank. Apart from the exchange?

Dr. Trip: For the general business.

Lala Harkishen Lal: You have said that the Government remittance ought to be done not on what is called the tender system, but in the business way, which means that they should not disclose their plans every time.

Dr. Trip: That is my opinion.

Lala Harkishen Lal: But do you not think that this process would be better employed if there was a second bank in the country? It will make it more certain.

Dr. Trip: When you deal with somebody, there are always two parties; one party would be the seller the other the buyer; so it is only the question whether the Reserve Bank would be the seller or the new institution would be that party.

Lala Harkishen Lal: When tenders are called for, all exchange banks send their quotations. In the same way, if the Reserve Bank calls for a tender, the Reserve Bank has not to disclose how much it has to remit and how it has to buy.

Dr. Trip. No but the amount called for would give an indication.

Lala Harkishen Lal: Would not that be better done if the Reserve Bank passed that business on to a third party?

Dr. Trip: How would that be disclosed if the Reserve Bank buys from day to day?

Lala Harkishen Lal: But still they are to do it for the Government, and if it is done through another bank it would not be quite apparent whether they are doing it for the public or for their customers.

Dr. Trip: In the case of the Reserve Bank it would not be known whether the Reserve Bank buys for Government or for the cover of the liabilities of the Bank or in order to build up a stock or to stabilise the position of the rupee.

Lala Harkishen Lal: The Reserve Bank will come into the market on three occasions, once for Government, once for building up its own resources and once to hold up the value of the rupee.

Dr. Trip: There are not three occasions, they buy for three purposes. There is a great difference between the two.

Lala Harkishen Lal: I accept it.

Dr. Trip: Here is a suggestion that Indian merchants are not served at present in a sufficient manner. As I have said this morning I have not such an impression. Otherwise we have no objection.

Chairman: Will you let us know what your views are on the Committee's conclusion (item No. 7)?

Dr. Trip: That is the question of import rupee bills. I for one am of opinion—and I hope my colleagues will agree with me—that the better way

would be to open up the London Market for the Sterling bills. At present these bills are financed at the rate of 6 per cent. by the exchange banks. In my opinion the interests of trade and business would be better served if the sterling bills could be placed and discounted in the London Money Market.

Lala Harkishen Lal: If they are also done simultaneously in India would there be any harm?

Dr. Trip: If you could create a market in this country and find that the Indian market is cheaper than the London Money Market then I would be in favour of the Rupee Bills.

Chairman: Therefore, you have no fundamental objection to Rupee Bills.

Dr. Trip: Not at all. In this paper and in the paper on "Money Market" it struck me that the measures that would lead to the cheapest way of finance were not mentioned. You have only stressed the interest to create Rupee bills.

Lala Harkishen Lal: I would recast the last sentence as follows. Instead of words beginning with "provided" in the last sentence to the end of the paragraph substitute the following:—"provided the importers are also prepared to accept rupee bills and these bills whether in sterling or rupee were available in the Indian market as in London". This means two alternative currencies and two alternative Money Markets in India.

Chairman: The cheapest arrangement which is beneficial to India could be adopted. If on the other hand, it is found that the cheapest way is to have Sterling bills which could be discounted at the London Market that could be done.

Lala Harkishen Lal: Can there be or is there provision for the discounting of German mark bills in the London Market?

Mr. Currie: We have the market for only the sterling bills which could be discounted.

Chairman: The difficulty will be if sterling bills are bought up in this country it will be not possible to circulate the same in the Money Market of this country.

Lala Harkishen Lal: I can quite see this difficulty but I think that if arrangements are made it is not an impossibility, because these bills have different currencies.

Dr. Trip: With regard to item (8), generally speaking we are not in favour of licenses being granted but if you think, having regard to the circumstances of the country, that licenses should be given by the Reserve Bank to institutions that want to do banking business in this country, then we have no objection to the principle. Whether it is in the interests of the depositors or not I cannot say, this is a dangerous argument and it places a very great responsibility on the Reserve Bank since it implies that it would have to control the position of these banks.

Chairman: Your point is that you will have no objection to the suggestion but you do not accept the principle on which the proposition is based?

Dr. Trip: Yes.

Chairman: Now what are your views in regard to item (9)?

Dr. Trip: We are strongly against this proposal. We have several times expressed ourselves that in the interests of the development of banking in this country, branch banking activities should be left to the banks themselves to freely decide upon. Then with regard to item (10) this is of course subject to item (8). Our view is that the licenses should not only be freely granted but also automatically renewed and that the Reserve Bank should not be free to place upon the banks any conditions for granting licenses. This view is confined the existing banks working in this country.

Chairman: You know that in some countries the condition of reciprocity is insisted on, *i.e.*, in certain countries when granting licenses to foreign banks they examine the conditions of banking in the country of that foreign bank wherefrom it originates. Would you agree to a condition of that sort?

Dr. Trip: That question can only arise when a new bank wants to come in, but not in respect of those which are already working here.

Mr. Ramdas Pantulu: Supposing a bank from a country like South Africa where the legislation seriously infringes the rights of Indians, wanted to start business; is there any reason why the Reserve Bank should not refuse to allow that institution coming into this country if it wanted to do so?

Mr. Lamond: The National Bank of South Africa tried to come in but failed.

Chairman: There may not be a bank from South Africa in this country to-day, but Mr. Ramdas' point is: supposing a South African Bank wanted to open a branch in this country, but meanwhile that country were taking steps against the established rights of Indians in that country, would you allow them to come into this country?

Dr. Trip: If the Reserve Bank thinks that the interests of this country will be damaged by the South African Bank coming in, then it can certainly say, 'no', or can take the circumstances into consideration and decide whether it should come in or not. With regard to paragraph (11), I do not think that it is the intention that the Reserve Bank should be quite free to prescribe all statements that they think should be given by the exchange banks. In my opinion, it would be enough if the exchange banks showed their assets and liabilities relating to their Indian business to the Reserve Bank. But it seems to me that according to this paragraph the Reserve Bank could prescribe any specifications.

Lala Harkishen Lal: Yes, so far as the annual liabilities and assets are concerned.

Dr. Trip: Therefore, I thought that it would be fair if the words "on the lines of the Indian joint stock banks" were added. And then we do not like the words "as a condition of the grant of licenses" to be there. Our view is that with regard to the existing banks license should be granted and automatically renewed but with regard to new-comers the Reserve Bank should have the power to make conditions.

Chairman: From our point of view we do not like that the renewal of the license should be automatic.

Dr. Trip: With regard to item (No. 12) we have no objection.

Chairman: Before we disperse I have one point to clear up; and that is about the idea of State assistance to the various classes of banks. I do not think there is any harm in mentioning this: that in the case of the Reserve Bank, even an authority like Sir Basil Blackett did not see any objection to that arrangement. I may also add that when we were discussing with Dr. Jeidels banks of another category, he himself said he had no objection to the State providing capital so long as the State did not interfere in the day to day management of the bank. What is your precise objection to the State providing the whole of the capital to, say the Reserve Bank or an Indian exchange bank?

Dr. Trip: I make a difference between the Reserve Bank and the Indian Exchange Bank. I would prefer that in the case of the Reserve Bank the capital be subscribed by the public, but if it is not possible to place the whole of the capital with the public I should not object against Government taking the remaining part of the share capital of the Reserve Bank. In regard to the Indian Exchange Bank our views have already been expressed.

Chairman: Your objection then is mainly against the Exchange Bank and not really against the Reserve Bank?

Dr. Trip: That is so.

11th March 1931.

MEMORANDUM ON

Land and the Cultivator (by Mr. A. P. McDougall.)

When a specialist is called in to prescribe for a patient suffering from debility he makes a thorough diagnosis. When experts are asked to advise on the affairs of an industrial company they must make a similar investigation.

The economic position of the Indian cultivator is not healthy. He is deeply in debt. If a remedy is to be found we must examine the reasons. His economic structure is built up as follows:—

1. Land.
2. Ownership and tenure.
3. Climate.
4. Cultivation.
5. Education.
6. Marketing.
7. Finance.

We shall make a brief review of each of these.

Land.—It has been stated that the soil of India is naturally poor. This is not correct. It has become poor. The great river valleys must at one time have been amongst the most fertile in the world. In Denmark and Germany the greater part of the land in its original state consisted of barren wastes of sand growing nothing but gorse and heather. By hard work and education it has become very fertile.

Countless generations of cultivators have reduced the natural fertility of Indian lands until the soil is now producing almost the minimum quality per acre. Statistics with regard to wheat clearly prove this—9½ bushels per acre is the average. It is, perhaps, the lowest of any country. Continuous cropping without manure will impoverish the richest soils. There are other factors such as the deplorable waste of manure by its use as fuel. In western countries fertility is maintained by using straw and the residue of crops as manure. In India all the straw is used for cattle fodder. If the output per acre in terms of wheat were raised to that of France, the wealth of the country would be increased by £669,000,000. If the output were in terms of English production it would be raised by £1000,000,000 per year. Yet England is by no means highly cultivated. This does not make any allowance for part of the land in India producing two crops per year. In the other countries referred to only one can be grown. This advantage should equal any loss from drought. It has been stated that the very small holdings in India are responsible. This is partly true but Denmark is a country of small holders where by education and co-operation, they have succeeded in building up the most productive agriculture in the world. In terms of Danish wheat production the increased wealth to India would be £1500,000,000 per year. It is not, therefore, the soil that is responsible for the poverty of Rural India.

Land Ownership and Tenure.—No country can prosper unless these conditions are sound. The cultivator must have security and the assurance that for whatever improvements he makes, he will reap the reward. Land holding under zemindars who do nothing to improve the conditions of their tenants and little or nothing to improve the standard of cultivation is not a good system. We refer to them elsewhere. All zemindars are not bad landlords, nor is the major portion of the soil of India held by them. It is held by the ryots themselves, as owners or as tenants under Government. Peasant proprietorship and tenure under Government are the best systems of land holding known to the world. We have, therefore, to look further afield for the causes of poverty on lands held from the state or under peasant proprietorship. One of these is the fragmentation of holdings. We have heard of one farm of 12 acres being broken into a hundred scattered plots and of a field, two furrows in breadth and two miles in length. There can be no prosperity under such conditions. It is a result of inheritance laws. Somewhat similar conditions prevailed at one time in Europe, though they did not reach such lengths of absurdity. Legislation was passed in order to remedy this state of affairs. In India a move has been made through co-operation to bring about a remedy. Land Consolidation Societies have attained some success. If India waits until this reform is effected by co-operation many generations will pass. Not only so but it will be costly. It would require a large staff in each province concentrating on nothing but this section of co-operative work. *We suggest that the most urgent requirement before the country today is the passing of legislation to bring consolidation of holdings into being at the earliest possible moment.* Agriculture in India will never make real progress until the holdings of the country are consolidated. Progressive farming is impossible. It entails waste of time, energy and wealth. The longer the delay in facing the needs, the greater will be the danger of India having to face social convulsions which will endanger her whole future. Sufficient evidence is forthcoming from what has already been done to prove that the ryot would derive enormous benefit. Public opinion must be awakened to the need of passing legislation, not only to save the ryot but save the country. As a practical agriculturist I am prepared to say that the loss from this cause alone, even under primitive cultivation must amount to ten rupees per acre per year—220 crores of money. If the zemindar problem is solved together with the one which we have just referred to, then India would have a land tenure system that could compare favourably to that of any country in the world. The smallness of the individual holdings has been blamed for the poverty of the ryot. A large proportion are not economic units even if consolidated. On the other hand the average is about 10 acres, but by far the greater number of cultivators hold less than this. We have no statistics at hand, but our impression is that the holding of 10 acres and under in Denmark produce more food per acre than those of 50 acres in that country. If a reasonable livelihood is to be gained from small holdings, cultivation must be carried on in an extremely intensive form. This is not done in India. The breaking up of holdings is still proceeding. This must be put an end to. A similar position arose in France where legislation was passed in recent years prohibiting any further fragmentation. Small holdings are no handicap to the production of the maximum amount of produce per acre. The size of the farms in the Channel Islands is no greater than in India. The soil is no better nor the climate. Per acre cultivated these Islands produce more

food than any other part of England. Intensive cultivation is therefore of vital necessity. This can only be brought about by intensive education. The small farmer, if he had the knowledge, has the time to make each square yard of his small farm an oasis of fertility. The small size of the farm is a handicap to the production of surplus wealth, but this makes it all the more necessary that the country should realise that the highest possible standard attainable by man should be the goal to aim at. At present it is the lowest.

Climate.—It has been said that the climate of India with its uncertain rainfall makes for poverty and famine. Certain districts suffer, but this could be very largely counteracted by the consolidation of holdings, by the development of irrigation and by giving careful attention to the possibilities of conserving moisture. India as a whole does not suffer from climatic conditions. They are such, that if made proper use of, she would be one of the wealthiest agricultural countries in the world. The possibilities of fruit culture have hardly been touched. They are, nevertheless, very great.

Cultivation.—The land is not cultivated as deeply as in western countries. It may be that under the climatic conditions prevailing in India, deep cultivation is not required. It is an advantage where hard pan is formed by the continuous ploughing but in India the intense sunshine in itself breaks up this pan. The soil is reasonably clean and free from weeds. Advantage would arise from the introduction of modern ploughs and sowing machines for seed. The great advance which must be made is by improving the fertility of the soil, and by using improved seeds and at the same time concentrating on growing crops of most value per acre. We shall give three simple examples to show what can be done. The Lyallpur Experimental Farm, Punjab, has raised its milk yield by breeding cows for milk, from an average of 5 lbs. per cow per day to 12 lbs. The yield of wheat is 25 maunds per acre. The average for India is about 7 maunds. Modern varieties of sugarcane produce 80 maunds of gur per acre, old varieties 20 maunds.

Education.—It is only by determined effort of the nation that sound progress can be made. The education of the ryot must be one of governing factors. It is essential that it should, in the first place, be based on agricultural education. Denmark, in less than half a century, raised itself from a bankrupt country to prosperity by one means only—the development of her one asset—the land. Her land in 1850 was no better farmed than Indian soil is now. It was the poorest in Europe. It is now the richest. Education was the golden key.

Marketing.—It is little good to bring millions of acres under cultivation or increase the product of the land to the value of millions of pounds per year, unless the necessary steps are taken to ensure that these products will secure a ready sale. Marketing will be dealt with in another paper.

Finance.—To remedy existing evils by credits alone may alleviate the misery of the ryot as an opiate relieves pain. It will not cure the troubles from which the misery arises. The credit problem is only part of the whole, an important part we admit. The suggestions which we make elsewhere will, we hope, be of some assistance in developing long and short term credits. If the ryot is to be relieved of his crushing load of indebtedness, co-operative effort must not be confined as it is so largely at present,

to Credit Banks. The movement must work in close co-operation with the educational authorities, the agricultural research department and the marketing organisation which must be established. The mind of the nation must be awakened to the enormous possibilities there are in the development of the wealth of the land of India and thereby ensuring moral and material progress.

The proposals which we shall make and which are based on the review of the Rural Problem as outlined in the above statement can be summarised as follows:—

1. A Central Co-operative Council should be established:
   (*a*) To co-ordinate all co-operative interests throughout India.
   (*b*) To organise and control an educational centre for the training of an efficient staff in the principles of co-operation including banking, accounting, agriculture, Rural Economics and Social welfare.
   (*c*) To promote and organise co-operative marketing.
   (*d*) To study the development of co-operation.
   (*e*) To organise and stimulate voluntary efforts on behalf of the movement.
2. Proposals with regard to Mortgage Banks.
3. The introduction of sound banking and accounting methods.
4. To consider the possibility of utilising the services and capital of the money-lender.
5. Proposals with regard to the Reserve Bank and the introduction of the Current Account system.
6. Marketing. We propose that a National Marketing Organisation should be established.

We are of opinion that it is a matter of vital necessity to organise marketing, especially of export produce.

A Central Co-operative Council.

The Royal Commission on Agriculture and all other authorities who have studied the subject are agreed that the economic and social improvement of the peasant can best be accomplished by organised self-help through co-operation. It is the ideal which must be aimed at. If real progress is to be made, the full magnitude of the task must be realised. It is one of the greatest which any country has ever attempted to bring into being, but it is also one of the most difficult. As at present constituted, generations will pass before even the majority of cultivators are touched by the co-operative movement.

Co-operation throughout India has suffered seriously from the lack of a co-ordinating authority. Provincial Governments have been sympathetic. They have given considerable financial and administrative support, but their outlook has been provincial. In many cases it has been in the nature of financial support in order to stave off disaster arising from mismanagement. No clear line of advance has yet been mapped out nor has any comprehensive scheme been evolved which would enable the united

strength of the Nation to be brought to bear on this all important movement. It has up to now largely confined itself to the short-term credit problem. This is only a very small part of the work which must ultimately be undertaken if the goal which is aimed at is to be achieved. The formation of short-term credit societies is the simplest part of the whole. In the Madras report the following statement appears—

"The ryot is eager to borrow but is not so eager to repay". It is easier to establish a short-term credit society in a village than it is to form a Rural Reconstruction Society, a Marketing Society or a Land Consolidation Society. We have indeed reason to believe that many credit societies have been formed in villages under conditions which afforded no chance of real success. In certain of the provinces the co-operative movement has had a surplus of money to deal with. Inspectors and the general staff are human. Their advance in the service has been largely dependent on the statistical progress made by them in the formation of societies. If they could go to a village and inform the people that they had money at their command to give away in credits if a society was formed, it is easy to realise that no difficulty would be found in getting the villagers to accept what they look on as Government money. During our tour throughout the country we formed the impression that such instances were by no means isolated. Inter-provincial rivalry may also have something to do with this unsatisfactory and unhealthy position.

Another weak factor is the lack of educational facilities for the technical staff. We refer to the inspectorate, the banking, accounting and propaganda staffs. Mr. Darling in his report for 1931 on co-operation in the Punjab makes the following statement—

" . . . yet through my tour I was forcibly struck not only by the lack of understanding on the part of the general body of members of most of the districts, but still more by the inability of the ordinary sub-inspectors to teach; some are good lecturers, few are good teachers . . . . It is impossible to frame a more damning criticism of co-operation as it exists in the most progressive province in India. It is at the same time an unconscious tribute to the success of the leaders, who in spite of this handicap have made progress. If this can be said of the Punjab, a province that has had a unique record of having had four great leaders of co-operation, it is easy to realise what must be the position in other provinces. Education in the principles of co-operation is absolutely essential if real progress is to be made.

How is the staff to be taught to teach?

Education can never be brought to the doors of the village if the staff are not educated. It is therefore essential that the provincial authorities should have a full understanding of their requirements in this respect. It would be a waste of local effort and of public monies to suggest that an educational centre should be established in each province, if one central school would suffice. Education of a high standard is of such vital importance that it would require as heads of that school the best teachers that India could produce. If each of the provinces were to establish such a school this would mean not only a great waste of public monies but the lowering of the standard of education. A school under a central authority would be less costly and more efficient. It has been suggested that co-operative classes held in the Universities would be sufficient. We

(5) That he shall give his whole hearted support to his society and that his experience and influence shall be unreservedly at the service of his fellow members.

(6) Any recognised money lender investing to the extent of Rs. 1,000 or over in a primary society shall be given the same rate of interest as the society pays on advance from its central bank.

It has been suggested that the money lender has nothing to gain by joining the movement. This is not correct. To an ever increasing extent the hand of his fellows is against him. He lends without security. Through co-operation with the organised and unlimited security of the members his loans are incomparably safer. A 7 per cent. investment is safer for him than 15 per cent. unsecured. His position will be improved. His support will be welcomed and he will no longer be looked on with suspicion by his fellow men.

The trend of every country in the world is towards the consolidation of interests. It is not possible for the money lender to stand indefinitely against this current.

The counter suggestion that Co-operative Credit Banks will be endangered by making use of the money lender is unworthy of a great movement. Caution is necessary. Action dictated by fear must always be bad action. Provided the safeguards already suggested are applied, then co-operators must have sufficient faith in its abilities to control its own future.

The money lender is no mean force for the co-operative movement to fight. Why waste endless time and effort in trying to kill him? Such a waste of effort is only permissible when it has been proved that a combination of forces for the common good is impossible. We suggest that this has not yet been proved because no concerted attempt has been made. The essence of good leadership is to secure victory at the least cost in capital and effort.

Chairman: We shall take up to-day Mr. McDougall's paper on Land and the Cultivator. Sir T. Vijiaraghavacharya is at present in Bombay and he will not be able to sit with the Committee until Friday so I shall begin to-day with page 4, section headed "Finance" and I shall go on from there up to page 20. Then I shall leave for the present "Rural Reconstruction Societies", that is pages 21—23, and come back to the Moneylender pages 24-25.

Mr. McDougall: Before we start I should like to remind you of the remarks Dr. Jeidels made when these discussions were opened. He said that these memoranda which we were placing before you were more as an *aid memoir* than anything else. There may be one or two little points which will arise in discussion which may have to be altered.

Chairman: That, of course, is recognised.

Mr. Ramdas Pantulu: On page 5, 2nd paragraph, begins with the sentence 'Co-operation throughout India has suffered seriously from the lack of a co-ordinating authority'. Will you kindly explain exactly what you mean by that and what you had in your mind when you made that statement?

Mr. McDougall: Very much what I have endeavoured to outline in my memorandum. A great movement like co-operation, in my opinion, requires a co-ordinating authority. The boundaries of your Provinces are not economic boundaries. Co-operation is a movement which affects the life of the Indian cultivator as a whole, and as a matter of fact affects the life of whole nation. In my opinion it is utterly impossible to secure the best results from co-operation unless there is some co-ordinating authority that would enable the experience gained in the various Provinces to be made use of by some central organisation. It would appear to me to be as impossible to carry on co-operation throughout India effectively without co-ordinating authority being in a position to act, as it would be for departments in a great industrial concern to manage the business entirely on their own without some sensible authority being in charge of it.

Mr. Ramdas Pantulu: So may I take it that it is now your opinion that there is no such co-ordination at present?

Mr. McDougall: Not effective. It may be that there is but I have not yet been able to find it.

Mr. Ramdas Pantulu: The position at present is that there is a Co-operative Society Act, which is an All-India Act, which lays down the general principles upon which the co-operative movement is to be conducted in this country. Two Provinces, Bombay and Burma, have since passed local Acts but they differ very little from the model of the All-India Act, there are very small changes. Therefore, the two legislatures which passed subsequent Acts have not found it necessary to depart in any material way from the All-India model set to them originally in Lord Curzon's time in 1904 and subsequently amended in 1912. Therefore, we have legislation which is on an All-India basis. The second position is that the financing organisations, the provincial banks, have an association of their own with certain bye-laws and rules, and this association acts as a co-ordinating agency between the provincial banks but it is only doing one particular thing now, namely giving information as to the financial position of each provincial bank with other provincial banks and

wherever there is a deficiency of funds it is helping one provincial bank to send over to the other banks. There is also a central organisation for provincial co-operative societies; it is a sort of propagandistic body. It does not carry out any of your functions. It is a very weak organisation I admit, but these organisations afford ample opportunities for the co-operatives of the different provinces to come together at least once in two years to discuss matters of all-India organisation. There is one more body which I must mention, that is the Registrar's Conference which meets once in two years and all the provincial Registrars in India meet and discuss policies distinctly with a view to co-ordinating the co-operative activities all over India and to that Conference at least one or two leading co-operators from each province are also invited and they are taken as advisers to Registrars. That is the present position.

Chairman: These conferences are presided over by the Minister of Agriculture.

Mr. Ramdas Pantulu: The convention has been set up within the last two years that the senior member presides, but the Member for the Government of India always opens it and makes a speech and then he leaves his Secretary there. That is the present position. Whenever you want to discuss any policy relating to the co-ordination of the co-operative movement in the Central Legislature it is not ruled out, although the Government of India always expresses unwillingness to interfere. They have not discouraged questions of general policy being discussed by means of resolutions in the Central Legislature but still Government is willing to listen to the opinions of the non-official members of the Central Legislature who are interested in rural finance and co-operation by bringing before the legislature and the Government of India all problems connected with co-operation. Will you tell me whether you are satisfied with these various devices for co-ordinating activities or whether you are in favour of a distinct organisation being brought into existence somewhat on the lines you recommended?

Mr. McDougall: I am in favour of a distinct organisation being brought into existence. That attempt at co-ordination which is in existence at the present moment is, in my opinion, only paying lip service to the principles of co-ordination. It is not sufficient and never can be, in my opinion, satisfactory. You require a much stronger co-ordinating authority than that.

Mr. Ramdas Pantulu: Then what control would you give to the central organisation over the provincial co-operative departments as well as provincial non-official organisations? Is it merely advisory or controlling?

Mr. McDougall: I should like it controlled but knowing the difficulties you have with regard to provincial autonomy I do not think it politic for myself to attempt to outline what these powers should be exactly. I think that is a matter that ought to be left to those who know the political reactions of your country better than it is possible for me to find out in such a short time.

Chairman: I will read you a passage from the Agricultural Commission's Report where they certainly do not advocate your views: "The provincial departments are working out the lines of advance to suit their special local conditions. There will be some danger that All-India Committee might by an attempt to secure uniformity actually present obstacles

to progress in the more advanced provinces, but we fully appreciate the advantages to be gained from formal exchange of views and from experience and we welcome the renewal of the conferences of registrars which proved so valuable . . . ." Therefore, I take it that in this particular matter your views differ from the views of the Royal Commission on Agriculture?

Mr. McDougall: They do.

Mr. Ramdas Pantulu: With regard to this Co-operative Council which you mention on page 4, it is the general idea of co-ordination. With regard to '*b*'—To organise and control an educational centre for the training of an efficient staff in the principles of co-operation, including banking, accounting, agriculture, Rural Economics and social welfare. Do you think that that work cannot be done efficiently by having a provincial organisation for the co-operative training?

Mr. McDougall: If you consider that each province is sufficiently wealthy and that there is sufficient of the best possible talent available to staff colleges in each of these provincial centres, then I might be prepared to modify my views but at the same time I would be prepared to say that I should consider that expenditure a very great waste of public money, in the meantime at any rate until the movement becomes very much stronger.

Chairman: There again you disagree with the Royal Agricultural Commission as the basis of many of their recommendations on this subject was that conditions vary from province to province and there a central association instead of being of any help may impede the progress of the movement. In the first instance we know there is the language difficulty. If there were going to be a central institution I do not know how they would actually fix the curriculum. What is happening at present I know to some extent. In the Punjab this method of training has been very considerably developed and the United Provinces sent some of their people to the Punjab to find out the lines on which they were proceeding and when these people went back to their province they started some institution which suited local conditions more. I know the Central Provinces has quite recently sent over to the Punjab an official and non-official co-operator to study the method of this training and one of them saw me when he passed through Delhi and told me what he was going to do there. There too the intention was the same. If these people had seen how the Punjab system was working they would go back to their own provinces and advise their Government as to what system should be adopted in that province in conformity with the local conditions. It may be different from those in the Punjab. Bombay and Madras have already got their own institutions.

Mr. McDougall: In my opinion the general principles of co-operation are world-wide and apply throughout the world. It is not a question of these principles being distinct as between one province and another in India. It is a question of the principles being absolutely world-wide. What is good for one country is good for another. The details of the matter, such as the methods of agriculture, may differ but even there it is only a question of detail, and at the same time you will have all these different aspects of the situation carefully considered by your sensible co-ordinating authority. We must assume that your co-ordinating authority will have sufficient intelligence to realise that the conditions of the Punjab are different from the conditions in Bengal. There may be variations in them but the general principles, even of good farming, apply to the whole

world and not to India. The application of these principles may be different.

Chairman: To begin with you said the principles are the same all over the world. Why then did England decide not to adopt the Raiffaisen system if the general principle is the same?

Mr. McDougall: Because England had already established a banking system long before the Raiffaisen system was thought of.

Chairman: Therefore, the fundamental principles may differ in different countries with reference to local conditions. Because local conditions in England were different, they had a well developed banking system, they decided not to adopt the Raiffaisen system.

Mr. McDougall: And you have decided to adopt the Raiffaisen system?

Chairman: Because our conditions make it desirable that we should adopt the Raiffaisen system. Even so we have not adopted the system in its entirety. In fact we have been told by witnesses in the reports of committees, people who knew a good deal about co-operation, that the Raiffaisen system in its entirety cannot be adopted in India and, therefore, that brings out not only my point but the point of the Royal Commission on Agriculture, that circumstances not only in different countries but in different provinces in India, must differ and, therefore, the fundamental principles in the Act to which Mr. Ramdas referred, thereafter each province must be allowed to proceed on its own lines of development unhampered by any central control.

Mr. McDougall: That may be.

Chairman: I see the point, you do not agree with that view?

Mr. McDougall: The basis of your system in India is undoubtedly the Raiffaisen system and the general principles which apply in the co-operative movement, which I hold very strongly, apply throughout the world. There may be modifications required. The fact that England has not adopted the Raiffaisen system is a perfectly simple one. Banking was developed there before Raiffaisen even brought in his system into Germany, and it was not required.

Mr. Ramdas Pantulu: In defining your co-operative society in the Act of 1912 a definition was adopted deliberately not to lay down anything which is uniform to the whole of India. If I read you the definition, you will be somewhat surprised because it is no definition at all: A co-operative society is a body which is run on co-operative principles. They want to leave co-operative principles to be administered and taught and promulgated by the Registrars and the non-official organisations in each province according to the conditions of that province. But beyond that the Act has not gone. Therefore, I want to know whether it is necessary to have an all-India college only for the purposes that you have mentioned. I have a scheme in which I also recognise the need of an all-India co-operative college. I think mostly there ought to be in every province organisations specially to train people to run various organisations. The village, for instance, should have a small organisation in each district or even taluka to train secretaries for the societies. A slightly bigger organisation to train the staffs and the Unions of the federations and the provincial organisation where training will be given to people from whom the recruitment of the higher officers of the co-operative banks should be made.

Beyond that there is necessity for a central organisation which will start the development of the co-operative movement on the best lines, for instance, in co-operative journalism so that they may propagate the movement throughout India somewhat on the lines of the Moscow Co-operative College in Russia. But it will have to be a very exceptional institution, located in some central place in India to which enthusiastic co-operators from all the provinces may flock. Beyond that I do not see any necessity for teaching banking, accounting, agricultural and rural economics and social welfare which are found in items '*b*' of No. 1 on page 4.

Dr. Friederich: May I add a few words to this? On page 9 of my paper which we dealt with last week I proposed to form special auditing unions. I wrote that one of the most important tasks of these auditing district unions shall be training a spejcial auditing, supervising and advising staff for co-operation. I am of opinion that educational work must be done more in accordance with the special conditions of the various districts. My understanding of Mr. McDougall's paper has been that the educational work of the proposed central co-operative council should be educating the managers for the proposed provincial and district unions training in co-operation, accounting and so on. It should not be a task of this central co-operative council to educate and to train the auditors of the various district unions; only to train the Government officials who have to run the auditing unions.

Chairman: Am I to understand you are not wholly in agreement with Mr. McDougall?

Dr. Friederich: There is no disagreement with regard to creating a Central Co-operative Council.

Mr. Ramdas Pantulu: Your conception of a central co-operative council as conceived by both of you will stand intact even if you Dr. Friederich were not thinking of the central council having to train or educate these men in the various branches of co-operative work that you have enumerated here. It is only to co-ordinate the activities and probably a rallying ground for the central research work.

Dr. Friederich: Quite so, I thought for instance that Registrars should be trained by this central co-operative council.

Mr. Ramdas Pantulu: So it is a very special work for all India.

Chairman: If that is Mr. McDougall's view, why does he in paragraph 6 of his paper say that the establishment of schools in the provinces would be a waste of money? Mr. Ramdas is advising that there should be a central school for a sort of post graduate studies for the education of the higher officers in the co-operative heirarchy.

Mr. McDougall: That is exactly what I have attempted to describe. If my language does not make that clear I regret that. It has always been my intention that these provincial organisations should have their own, shall we say, elementary schools and that instead of each province setting up great organisations like this that would overlap, they should train the best talent of all these provinces.

Mr. Ramdas Pantulu: So you make it clear that what you conceived is not an ordinary school for training but a central organisation for higher training of a specialised kind?

Chairman: On page 6 you say definitely that the training of a co-operative staff is of sufficient importance to warrant a school of its own. If you now say that you do not object to the training of the co-operative staff in accounting, etc., in provincial schools, that largely modifies the view contained there. When I read it I certainly gathered the impression that the training of the whole co-operative staff should be conducted in a central institution.

Mr. McDougall: Not only do I not object, but I very heartily support the proposal. I admit the sentence here is not very clear. One of the primary objects of the central organisation is to teach not only the teachers required for cultivators, but also those who have to get the teachers of cultivators.

Chairman: That is, higher teachers.

Dr. Friederich: I know it is impossible to centralise the whole educational work of co-operation. I, therefore, proposed in my paper that auditing district unions should be formed which have also to educate the staff required for the audit, etc., of the societies within the area of operations. Then I put down that these unions should be run by Government officials. Of course, these people must get special training. I further proposed provincial apex unions run by Government officials. In case you have a very big province and you have a lot of district unions and you have to get a number of managers for these unions, then it has to be decided whether the managers for these district unions should be trained by establishing a special training class at the headquarters of the provincial union, or whether they should be trained by the central co-operative council. But one thing is sure. There should be a body to train the managers of the district and provincial unions, and the registrars—I have pointed out that it is necessary that registrars should be well trained and experienced in co-operation and should understand accounting, auditing and co-operative work. That body should be the central co-operative council.

Chairman: May I suggest to you that you have not carefully considered the evidence tendered before us by witnesses? I may not be very precise in my description because I am speaking from recollection. The Institute of Bankers is a body established under the aegis of Government a couple of years ago to improve the teaching of banking and accounting in this country and it has already started work. When their authorities came before us, knowing that there was a lacuna in the banking and accounting training of these members of co-operative banks, we put it before them that they should devote their attention to this training also. I think we said—at least that was the intention—in future before anybody is appointed as a manager of a co-operative bank he should possess a certificate of this institution. I think that was the line taken.

Mr. Lamond: That (The Banking Institute?) was entirely a banking matter. That was done by the banks themselves.

Mr. Buckley: It was initiated by the Imperial Bank.

Dr. Friederich: Unfortunately we had no discussion on the part relating to audit in my paper. In case we had, I could have pointed out that I wanted to separate audit from banking because some central banks have special supervising staff, and we wanted to concentrate audit and supervising in the auditing unions. I did not mention that the managers of central banks should be trained by these unions. I pointed out that the managers of the central banks should be well-trained in banking and co-operation, but made no proposal where they should be trained.

Chairman: Mr. McDougall's paper includes banking and accounting. I admit there was no discussion on that part of your paper. I asked Mr. Ramdas Pantulu whether he would take up that point and he said he wanted to take that up on Mr. McDougall's paper, and to-day we will have a certain amount of discussion on that particular subject.

Dr. Friederich: Every auditor of a credit society has to know banking and accounting very well. The people who are at the top of auditing unions have to know audit very well too. In case I want to audit a bank I must know banking.

Chairman: I agree. The point is this. Instead of having another school for that purpose or partly for that purpose why should we not prescribe that these people should possess the diploma of the Indian Banking Institute?

Mr. Lamond: It holds examinations.

Chairman: The Bankers' Institute said that theoretical training should be given in Universities and that practical training should be given in banks. There is no use having theoretical training if you do not have in addition practical training, and I do not see how an institution is going to give practical training. Therefore, the arrangement in India, and I believe in England and elsewhere, is that theoretical training should be given in schools and Universities. Then comes practical training. Some banks in India, particularly the Imperial Bank, have kindly provided for this practical training. Then these people go in for the examinations of the Bankers' Institute and get their diplomas.

Dr. Friederich: I personally have no objection. In my country people who want to rise in the work of a central bank must do their period of apprenticeship, and must go up from an apprentice.

Chairman: Mr. McDougall's is fundamentally different from your scheme. I am now pursuing item by item. There is already an organisation in India which can provide for post graduate studies—I am referring here to the Agricultural Board. If they found that this is necessary in the interests of agriculture, they could get money from Government and arrange for this post graduate training.

Dr. Hyder: We have got two bodies—Imperial Council of Agricultural Research (which consists of a Governing Body and an Advisory Board, the two together forming the Council) and the Board of Agriculture. So far as my knowledge goes I do not think the Council has taken up the question of co-operative education.

Chairman: They may not have taken up the matter. Is it outside the purview of that body?

Dr. Hyder: It can certainly promote research, even if that be in the sphere of co-operation and grant money for the purpose.

Chairman: Higher studies?

Dr. Hyder: It is purely research.

Mr. McDougall: I understand your Council of Research is to search into all the ways and means of improving the output of agriculture. It is more or less a scientific board. That, in my opinion, is an entirely different thing from my conception of a central co-operative council.

Dr. Hyder: I see your point. I was telling the Chairman that the primary object of the Council of Agricultural Research is to promote research in agriculture. Co-operation may or may not form a part. I take it we have only my friend Mr. Devadhar on it and he sits in his capacity as a co-operator on the Advisory Board of the Imperial Council of Agricultural Research.

Chairman: I understand from him that they have no power to take up the question of higher studies in the field of co-operation unless they consider it necessary in the interests of the development of agriculture.

Mr. McDougall: I am not prepared to accept that at all.

Mr. Ramdas Pantulu: I think Mr. McDougall is right. For co-operation consists not only of agricultural co-operation, but of other branches of co-operation such as marketing etc., and these cannot come in.

Dr. Hyder: We might get this information from the Vice-Chairman of the Council of Agricultural Research. Mr. Ramdas Pantulu in his remarks referred to agricultural co-operation and mentioned marketing. They have provided the staff for carrying on research into marketing of sugar. They are going to initiate an enquiry into sugarcane and other such products. Research into marketing—finding out facts and drawing lessons from them—undoubtedly comes within the purview of the Council of Agricultural Research.

Mr. McDougall: So far as I know the Research Council devotes itself to research. So far as I know, the brains of the scientists are not adapted for the work I propose. A scientific brain is not an organising brain—I say this with the most profound respect for scientists.

Chairman: You have overlooked the fact that this Council has as its Vice-Chairman, not a scientist, but a great administrator. Therefore, when you talk of that, I can tell you forthwith that you are entirely wrong. Some of the members of the body are not scientists, they are administrators, and the position, therefore, is this; the Board itself is largely composed of administrators though there are one or two members who are scientists, who come in largely as experts for giving advice.

Dr. Hyder: They come in as advisers. The other members are administrators being Directors of Agriculture, etc. But the original intention of the Royal Commission on Agriculture was that it should be composed entirely of scientists, but the scientists have been kept out.

Chairman: It, therefore, meets your objection.

Mr. McDougall: That is an advantage.

Chairman: Mr. Ramdas Pantulu mentions to me that of the 17 members of the Governing Board only 2 are experts. As it is, the Government of India, when they formed the body, anticipated your objection.

Dr. Hyder: The governing body has one or two experts and its head is an administrator. The Advisory Board consists of heads of departments of agriculture in the provinces, and some scientists attend by invitation if the need arises. A particular problem is referred to a sub-committee composed of scientists drawn from all over India.

Mr. McDougall: You have got sufficient work on hand?

Dr. Hyder: There is so much work to do. One has hardly time to read all the papers.

Mr. McDougall: I would more than agree with you. The research work required must be so enormous that it should take up the whole time.

Chairman: It does not sit from day to day. If you think it is fully occupied with work you will be carrying away a wrong impression. It meets twice a year for 3 or 4 days, and it may be that it works for 7 or 8 hours these days. Therefore, if the Board met on a larger number of days it could easily take more work.

Mr. McDougall: My opinion is that it would be very much better for the Board to confine itself to its legitimate work, that is, research work.

Mr. Ramdas Pantulu: Mr. McDougall is right in so far as he says that the Board neither does the work he advocates nor is competent to do it. I quite agree.

Mr. McDougall: I will certainly not support the proposal that the work I wish to be done should devolve on that Board.

Mr. Ramdas Pantulu: Supposing I propose to you that the work of education, generally speaking, should be left in the hands of the provinces, that an all-India central organisation for higher co-operative studies and for co-operative research and for training of officers of the provincial grade, and so on, should be established, you would agree to that proposal?

Mr. McDougall: Yes, provided a sufficiently comprehensive school is established of real value and that any proposal that you make does not take away from the importance of that school. So much lip service has been paid to co-operation in this country that I should very much regret if anything was done which would reduce the status and importance of that school. It is a school that has really got to teach the teachers of 300 millions of people. It is an enormous job. I wanted to emphasize that the school must really be a very great school and the best staff should be secured. Its importance cannot be exaggerated.

Mr. Ramdas Pantulu: I know the Committee will consider that. Sir Daniel Hamilton put forward a proposal for an all-India co-operative institution for education. He says that the Government of India have agreed to sanction some money—whether they have actually sanctioned it or not I do not know. He wanted the Bengal Co-operators to start that school but apparently he was not satisfied that they were sufficiently enthusiastic about it, and he wrote to me. I replied to him to say that there is not much scope for it in Madras, and now I think he has asked the Bombay co-operators to establish a school in Bombay. I have not his scheme before me, but I understand Government actually favour it, and probably have sanctioned some money. If we can get at that scheme, you will give us your impression of it with regard to syllabus, scope of studies, etc.? I will wire to Sir D. Hamilton at Calcutta for a copy of his scheme.

Chairman: Judging from other communications what the Government of India have done is this. They have agreed to give grants to provincial Governments for starting these schools, and Bengal, apparently, would not fall in line and, therefore, they could not get the money.

Mr. Ramdas Pantulu: I wrote to him that I could not approach Madras Government.

Chairman: That being the case he approached the Bombay Government.

Mr. McDougall: I sincerely hope that the matter will receive greatest consideration from the co-operative movement in India, and that some committee will be established to work out details. I have only given you a very general outline. You appointed a committee to work out the details of the Reserve Bank. Likewise a committee is required to examine conditions in India and work out details of the proposal that I make. I most sincerely hope that nothing will be done in this connection until it has received most careful and detailed consideration.

Mr. Ramdas Pantulu: Still the difficulty remains. Of course, the Council may provide the conditions for the progress of education in all the provinces and give general advice as to the sound lines on which education should proceed, but I do not think it should have anything to do directly with the running of these organisations. I think it ought to be a separate organisation for teaching, unencumbered with any other functions and confining itself to higher co-operative studies, both of a research character as well as of a training character, and that the rest of the work should be left in the hands of the provincial educational organisations. The Central Council may perhaps collect information as to what is going on in the best organized institutions in other countries, supply literature, give advice, etc.

Mr. McDougall: Under whom are you going to place this educational centre? Who ought to be the governing body?

Mr. Ramdas Pantulu: We have a constitution now which differs in each province. In each province the governing body consists of the organizations which finance this body, who would also train the staff; the Registrar, who is always an *ex-officio* member and one or two educationists. In our province, there are two Professors of the University, the Registrar, the President of the Provincial Co-operative Union and one or two representatives of Government.

Mr. McDougall: You are referring to the provincial organization, not the central.

Mr. Ramdas Pantulu: Yes, provincial. The central organisation, I expect, will be managed by the various provincial organisations, some officers of the Government of India both in the Education as well as in the Co-operation Departments being represented on them. My conception will be one or two representatives from each province, some representatives of the Government of India and probably the Director of Education. I think that will be a good enough constitution.

Mr. McDougall: In view of the fact that the Central Co-operative Council which I wish to see established is to have two representatives from each of the provinces on each of the boards, do you think that any benefit is to be gained by setting up other representatives from the provinces to act as Governors of these educational centres?

Mr. Ramdas Pantulu: The representatives who will be sent by the provincial institutes to co-ordinate and guide education may not necessarily be the best representatives to co-ordinate and guide banking, or other functions. With regard to each of these functions specialists are required. I would expect on this Board of the all-India college people who are versed in education and who would give really some guidance, advice and help in the matter of promoting co-operative education. I do not want merely laymen to come on this Board of the all-India college. Therefore, my conception of a Central Council is such as to exclude from its operations purely educational and training work.

Dr. Friederich: I am not for special institutions with regard to education. If my proposals about provincial and district unions are accepted, I think we shall have enough institutions for educational work. I may be allowed to give you a picture of how it is done in my country. We have auditing district unions, which take boys of, say, 15 years, who have to learn accounting, and undergo an apprenticeship of two to three years. Afterwards they are trained in auditing. Then we see how these boys of 18 or 19 years can develop. In case they have good knowledge of the work and they are considered fit to get on as auditors, we send them to the "Co-operative Societies School's" training class of our Apex union. The training lasts for six or seven months. The boys thus get general knowledge, both theoretical and practical. If they are qualified they become Assistant Auditors. In case they are not especially qualified, they have to continue to do accounting work.

Chairman: When I read Mr. McDougall's two papers, the impression on my mind was that Mr. McDougall's idea about the Central Educational Institution is different from yours.

Dr. Friederich: That may be but to a small extent.

Chairman: I understood your point to be that you do not want the Central Educational Institution to deal with banking and auditing.

Dr. Friederich: Both the proposals are connected. In case my proposals are accepted with regard to district and provincial unions, there should be people for running them. I think there is a lack of Registrars well-trained in co-operation. My personal impression is that the training of Registrars in co-operation and auditing is not sufficient enough. There should be a special class of the Central Co-operative Council for training qualified people, for running the provincial and district unions, as Registrars, Assistant Registrars, etc.

Chairman: I am simply trying to get at the bottom of the scheme. You want this institution to confine its training to Registrars and Assistant Registrars. I did not understand that to be Mr. McDougall's idea. When you talk of Registrars and Assistant Registrars, may I tell you that the conception, so far, has been that the Registrar need not be an expert in banking and auditing? He must be a high administrative officer and you need not have the high administrative officer possessing also special

qualifications in regard to banking and auditing. I think Mr. McDougall said that the Punjab arrangement should be adopted and that in each provincial organisation there should be an expert banker and auditor. If that is so, why do you want the Registrar to possess those qualifications? As I look at it, the Registrar is a high administrative officer. If he wants to do everything, he must be an expert banker and an expert auditor. It would be impossible to get persons with all these qualifications and if the Registrar has with him an expert banker and an expert auditor, that would meet the requirements of the case. In the case of Assistant Registrars, similarly, considerable administrative experience is required, because co-operation to a large extent involves what you call agricultural operations, and it follows that the chief Government officials must have considerable administrative experience. As it is, the Royal Commission on Agriculture, who undoubtedly knew more about the conditions prevailing in the country, did not say anything on this particular point, namely, that the Registrar must possess technical banking and auditing knowledge. All they said was 'select your best men, and let them remain here; do not change them too often'. That is my difficulty. Before Dr. Friederich made his supplementary statement, I thought we had cleared up the position to some extent and that Mr. McDougall agreed that the educational institution was intended for the higher training of people in the upper strata of the co-operative movement in each province.

Mr. McDougall: So it is.

Chairman: Then Dr. Friederich suddenly intervened and said that was not his conception. So I tried to find out from him what his conception was; he now confines himself to Registrars and Assistant Registrars.

Mr. McDougall: So far as Registrars are concerned, I shall be quite satisfied if men of real ability and experience as administrators are appointed.

Dr. Friederich: To make my point quite clear, I have no objection to Registrars to be administrators. My point is only this: I think it would be useful if qualified administrative people get some supplementary training for a short period in a school for co-operation. It would be useful even for very qualified administrative people. The Registrar has the full responsibility for audit, therefore, it would be useful for him to have a good knowledge of the special job.

Chairman: I see that there is some difference at least between you and Mr. McDougall and I think we shall proceed with Mr. McDougall's scheme. You want the Registrar to be a superman, he should not only be an officer with high administrative qualifications but he should also try to make himself an expert banker and an expert auditor. I am one of the few people who have worked in various departments of Government, civil, military audit and accounts, and I know that supermen of this sort are difficult to obtain. We shall leave it there. As I understood the position, Mr. McDougall does not want the Central Institution to train every worker in the co-operative field all over India; he wants the Central Institution to train the upper hierarchy.

Mr. McDougall: Again I should like to emphasize the fact that the Central Training School must really be a great organisation.

Chairman: That I understand. You said that before this institution can be started you must have the top co-operative associations in the provinces coming together and working out a scheme for the proper running of this Central Educational Institution. That was the trend of the discussion. Then Mr. Ramdas Pantulu said that if there was to be such an institution, he does not want it to be run by the All-India Central Co-operative Council, but he wants the Governing Body to be composed in a different manner. We were on that stage when Dr. Friederich intervened.

Mr. McDougall: With regard to that, I would ask you to consider very carefully the advisability of avoiding any overlapping. I should like the Central Council to be so represented that it would cover all the work pertaining to the Central organisation. While I am all for the taking away of this work from the Council of Research (which, in my opinion, is absolutely necessary and important and I do not minimise the enormous importance of the work the Council of Research has already done and has before it), in my opinion it would be a great mistake to set up any overlapping in this Council of Research.

Chairman: We are not on that point. We are on the Central Educational Institution for Co-operation. Mr. Ramdas Pantulu had certain ideas about the constitution of the Central Education Institution for Co-operation, should that be formed.

Mr. Ramdas Pantulu: May I know the class of students whom you will admit into the Central Educational Institution and the qualifications and status of such students?

Mr. McDougall: I should try and use the very best brains that can be got to attend this Co-operative Council and take part in the movement. There again I do not consider that my experience has been such, in the short time that I have been here, as to justify me in detailing the work which I consider must be outlined by the authority which should give this matter careful consideration.

Mr. Ramdas Pantulu: I am trying to find out the general lines. Suppose I say that we ought to admit into this Central Educational Institution graduates of Universities who have qualified themselves for degrees with Economics and Co-operation as special subjects, and also some higher grade officials whom Government may think it necessary to send for training, also other research scholars who want to pursue higher studies in co-operation and allied subjects?

Mr. McDougall: By all means.

Chairman: But would you not also include in it some of those who are nearing the upper strata in the co-operative movement in the provinces, so that they may get the education necessary for rising up to the upper strata?

Mr. Ramdas Pantulu: For example, I may like to send my Assistant Secretary so that I may make him an Assistant Registrar.

Mr. McDougall: So far as the staff and expenditure of the school are concerned, I would not debar anybody who is qualified. That in itself will require very careful consideration.

Mr. Ramdas Pantulu: With me it is fundamental, because I want to have the ordinary education for all qualified men to be imparted in the provincial organisation. I would confine the Central Institution to students of exceptional ability who might be of the greatest use to the movement, both on the official and non-official side, and to research scholars who wish to pursue the subject for the love of learning.

Chairman: There is this in Mr. Ramdas Pantulu's point that as soon as you take these men or boys there, they would expect that, after they have passed through the Central institution, they will get employment. If you were going to throw it open to everybody who is qualified, boys would flock in large numbers and find that they have no prospects of employment.

Mr. McDougall: I am not willing to open it to everybody. I would not open it any more than medical courses are open at present.

Mr. Ramdas Pantulu: A certain number of them can be absorbed into the official and non-official ranks in the Co-operative Departments. If the conception is as I have stated, you must have a set of teachers and a Board to control the organisation. Would you constitute them on an independent basis without reference to the provincial educational organisations or would you co-ordinate them with the provincial organisations in some way?

Mr. McDougall: There is no reason why they should not be co-ordinated with the members of the Council as I have very briefly outlined. Let me take an example. You yourself are an authority on Co-operation in Madras. I should expect to see you on the Council of Co-operation. I am quite sure that your abilities and qualifications are such that you can take part in the management for the school with equal benefit to the movement as you can in the other work which the Co-operative Council has to do.

Mr. Ramdas Pantulu: You would constitute the Board of Management of the All-India Institute in some manner so as to have the representation of the provinces?

Mr. McDougall: That is so.

Mr. Ramdas Pantulu: In course of time I expect this organisation to be financed by non-official organisations supplemented probably by State aid from the provinces; I also expect the students coming here to be contributed by the provinces through the Universities or other organisations. Therefore, both the human material as well as the money for this organisation must ultimately come from the provinces. It must be something like a co-ordinating organization for education for all India, mainly depending both for the supply of students and for money on the provinces. Do you agree?

Mr. McDougall: Yes.

Mr. Ramdas Pantulu: The rest is a matter of detail.

Mr. McDougall: Yes.

Chairman: In view of Dr. Friederich's intervention and of the fact that he was explaining the German system, I would like to ask him whether in Germany there is any Central Educational Institution of this type outside the Apex Bank?

Dr. Friederich: There is no special body, but the work is included in that of the Apex Union. It is the Apex *Union*, not the Apex Bank.

Mr. Ramdas Pantulu: Have you any knowledge of the Central School of Co-operation in Moscow?

Dr. Friederich: No.

Mr. Ramdas Pantulu: It is not connected with any Institute or Central Council; it is an organisation by itself and, therefore, has some parallel to the kind of thing I am suggesting..

Chairman: The difference between Mr. Ramdas Pantulu and Mr. McDougall is that the former does not want this school to be run by an All-India Council, but by a governing body to be selected largely from the provinces and supplemented by Agricultural Advisers of the Government of India.

Mr. Ramdas Pantulu: I have merely made my suggestion. I do not know how far I will differ from Mr. McDougall ultimately.

Chairman: Mr. McDougall's point was that the exact constitution would be a matter for settlement by the various provincial co-operative institutions of this country sitting together through their representatives.

Mr. McDougall: That is so.

Mr. Ramdas Pantulu: Item (c) of the functions of the Central Co-operative Council is given as "to promote and organise co-operative marketing". I take it that the supply of information about world markets and the prices and the prospects of outlets for produce fall within your marketing scheme.

Mr. McDougall: Yes.

Mr. Ramdas Pantulu: Do you contemplate the Central Council merely to act as an Information Bureau or do you want the Council actually to function as a Marketing Board?

Mr. McDougall: If you read my paper on Marketing, you will find that I have suggested the establishment of a Marketing Board for all India.

Mr. Ramdas Pantulu: If you had used words which will merely indicate that the object is to give information, supply statistics and tell people as to where the produce can be sold to the best advantage, etc., I would have thought that there was much to be said in favour of the proposal, but in view of the proposal for a National Marketing Board I was wondering whether your Central Co-operative Council would act as a Marketing Board?

Mr. McDougall: You will understand that only when we come to the paper on Marketing.

Chairman: Mr. Ramdas Pantulu's point is this: where is the line of demarcation between the functions of this Central Marketing Board which you propose later on and the functions of the all-India Council in regard to the promotion and organisation of co-operative marketing?

Mr. McDougall: In the first place if the Central Marketing Board is to function in an adequate manner and to do its work effectively, it has got to do far more than merely co-operative work. It has got to be a Marketing Board to try and co-ordinate the whole marketing activity of this country in all its aspects. In fact the whole trading machinery has got to be co-ordinated there. I perfectly realise that there

do not agree. The training of a co-operative staff should be looked on as a highly technical and specialised subject and of sufficient importance to warrant a school of its own. The subjects which would amongst others have to be studied are educational propaganda, progressive farming methods, banking, accounting, rural economics and rural industries. Co-operation is not philanthropy. It is a business and must be run on business lines. Even the educational side must be based on the business of farming. There is not a country in the world where there is co-operation that the neglect of this fundamental fact has not resulted in serious financial losses and waste of time and energy. As training is necessary to the business man under modern conditions, so it is to the co-operative organiser.

In another memo. which has been issued, we have referred to the need for establishing Rural Reconstruction Societies. This part of the movement is likely to prove to be much more difficult than the formation of credit societies, but the ultimate result to be attained will be of distinctly greater value. Reconstruction societies would be a means of breaking down customs which are a severe drag on the economic and social progress of the nation. This in itself will have an immense effect on reducing the debt load of the people. Thrift will be encouraged in many other ways through such societies. The simple principles of improved farming methods can also be introduced, such as the use of better seed, better cultivation and the conservation of manures. Through such societies the villagers could be taught to combine against the oppression of the zemindars. We have actually seen a Rural Reconstruction Society which has made itself responsible for the payment of the rent of the village through the society. If this became general then it would obviously be extremely difficult, if not an impossible task, for the zemindars to force unduly high rents from their tenants or compel them to give free service. Without an educated staff the formation of such societies is impossible.

The co-operative movement is of such importance that it is necessary to have what might be called a General Staff to co-ordinate the whole of India. Experience gained in one province should be made available for the others. There should be concentration of the combined thought of all the provinces at a given centre. Research work on all the many and varied problems should be constantly proceeding. If co-operation in any province is not advancing on sure lines, then there should be some authority representing the whole movement which would be responsible for overcoming the weakness. The army of co-operators in India can no more afford to have a weak division than can an army in the field. If the banking section is weak in one province then it reacts on the financial security of the others and on the confidence of the public in the stability of co-operative banking in general. Lack of confidence means dear money.

Provincial boundaries are political. They are not economic. The interests of the ryots on the borders of all the provinces are identical. It is only by co-ordination of all these interests through one directing channel that the combined strength of the cultivator can be made effective. If such a body was now in being and a united request was put forward by the Central Council to demand legislation with regard to consolidation of holdings, more than half the battle was won. Banking and accounting should also have a central organisation which would act as a foundation for these two vital points of structure.

Co-operative marketing is another line of research for which a central organisation is essential. The general marketing of the Nation's produce must be looked on from a broader aspect than would be possible under strict co-operation. This is referred to in another memo. in which it is suggested that a National Marketing Organisation should be established. It would, however, be the business of the Central Co-operative Council to work in conjunction with this body. The importance and magnitude of the work which has to be done is such that it is essential that a Central Co-ordinating authority, to be called a Central Co-operative Council, should be established under a special department of state. This department should be a Ministry of Agriculture and Land. It is in our opinion imperative that this Ministry should have no duties attached to it other than those concerned with the Rural economics. We understand that at present there are the three port-folios combined—education health and land—and that there are also certain other subsidiary duties attached to this Ministry. The Ministry of Agriculture and Land should be relieved of health and education. We are also of the opinion that the Ministry should be divided into distinct departments with responsible heads in charge of each under a Minister and Secretary. In a subsequent memorandum on marketing it is our intention to suggest that a National Marketing Organisation should also be included in the purview of this Ministry. Unless full recognition is given to the enormous importance of the work to be undertaken, no good will result. At the head of each of these sections must be men of indisputable ability and powers of organisation. On the Co-operative Council for all India, there should be two representatives from each province. They shall be nominated by the Provincial Co-operative Unions. The Chairman shall be the executive officer in charge of the whole. The Provincial Governments should make themselves responsible for the costs of maintaining the Educational Institute. The Central Government should in the initial stage bear all other costs and salaries. As the co-operative organisation grows in strength, a levy from the Provincial Unions should ultimately enable the movement to finance itself. Real and speedy progress can never be made unless the resources of all India are utilised. We are of the opinion that if properly organised there are great numbers of people who would give voluntary services to the cause of co-operation. We are also, of opinion that a propaganda department conducted with vision could make use of the press in a manner which would be invaluable. There are many organisations which could be used with great effect in rousing and forming public opinion.

If a Council similar to what we propose had been in existence for the last few years and had been carried on with efficiency, the suggestions which we are now making would it is more than likely have already been in operation. Many enquiries have been held and numbers of co-operative experts, from every Province in India have visited Europe and other countries. There is not yet uniformity. The experience gained by such enquiries and visits should not be limited to one Province, but should be made use of by the whole co-operative movement throughout India. The longer the delay, the more diverse will become the methods in operation in each Province. Ultimately unification will become impossible or at least incomparably more difficult. Even from the point of view of the desirability of establishing a unifying social force throughout India the opportunity of strengthening the amalgam through the co-operative movement should not be lost sight of.

Mortgage Banks.

Mortgage Banks are institutions for the purpose of lending monies on long term investment on sound realisable securities to enable landowners to secure the advantage of cheap money. Before they can be recognised as a safe investment, certain alterations must be made in the laws of the land. In the Punjab and elsewhere the Alienation of Lands Act makes it impossible to recognise land mortgages as a sound gilt edge investment. Where it is in operation it is not possible to secure the right to a free sale of land which, through the default of the mortgage may have to be taken over by the lender. He has no claim to ownership, therefore a mortgage is not a mortgage under the correct sense of the term. Mortgage Banks can only recoup themselves against loss by letting the land to a tenant. This is not a sufficient safeguard. It is not for a bank to act as landlord on a large scale. The cost involved is too great. There is also a risk of deterioration of the holding through bad farming, the drying up of wells, alkaline troubles, etc. The cost of management of a large number of small scattered holdings is also a very serious handicap. These are only some of the many difficulties. In the Punjab, the most prosperous province in India, one third of the borrowers are defaulters. This is an impossible position for a mortgage bank to face with equanimity under the existing law.

We are of the opinion that unless the Act referred to can be amended, it will not be possible for a mortgage bank to function in such a way as to be an attractive Debentures investment. An alteration should be made in the Act which would give the right to Co-operative Mortgage Banks to sell lands coming into their possession through default in payment of principal and interest. We understand that the Act was passed to prevent the accumulation of land in the hands of land grabbers, who were not agriculturists. The Act does not prevent zemindars who may also be land grabbers and moneylenders from adding to their holdings. A Co-operative Mortgage Bank is designed for the purpose of providing farmers with easy capital at the least possible rate of interest. It is only reasonable that agriculturists combining in a co-operative unit for such purposes should be recognised as such under the Act. If a body of farmers agree to purchase their existing holdings as a company, we assume that the Act would recognise their right to sell their holdings, either in one block or separately, as they might think fit. We can see no difference in principle to farmers combining through a strictly co-operative society to secure cheap money in order to carry on their individual holdings.

It is perhaps outside our terms of reference to make other suggestions with regard to the Act. We understand that it is only the recognised agricultural class who are enabled to purchase land. This prevents the non-agriculturist or his son who may have a keen desire to take up farming as a profession from doing so. We also understand that the son of an agriculturist who may leave the land to follow a profession in a city or elsewhere, can continue to buy land as an investment. We are not concerned with the obvious hardship to the non-possessing class; we are concerned with its implication from the point of view of improving the financial position of the country. The adoption of sound progressive methods makes wealth. Our experience in our respective countries is that it is a distinct advantage to agriculture to have a percolation of the quicker

brained, more adoptable business mentality coming into the industry. This class is more likely to be responsive to scientific knowledge and they have the means to introduce better machinery and more up-to-date methods. An owner of this class can do no possible harm. On the contrary, great good can result. We do not put this point forward as a recommendation, we are aware that it is highly controversial. In other districts the Hindu family law acts as a serious handicap to safe advances on land. If Mortgage Banks are to become of real use for the purpose of raising cheap money, then this law also must be amended. There is a further difficulty. Lenders can not secure reasonable and speedy redress against defaulters owing to legal uncertainties and delays. This is referred to in the Punjab Provincial Report, page 120. We have heard of a current saying "If you have a good case, compromise out of court, if it is a bad case, fight." Many laws have been passed to save the debtors from the money-lenders. It is not inconceivable that this may be one of the reasons why money lenders are forced to charge what would appear to be excessive rates of interest. Where undue protection is given to the unscrupulous borrower, the psychological effect must be harmful. The great majority of borrowers are honest people intending if possible to pay their debts. By the introduction of safeguards this class suffers. A high standard of business integrity can never be fostered by protecting the rogue. We suggest that the time is ripe for an examination by competent authorities of existing laws. We are not satisfied that they are working to the advantage of the country as a whole.

If the Land Alienation Act is amended in such a way as to recognise Co-operative Banks as zemindars, we feel confident that together with the addition of other safeguards which we recommend, sound Mortgage Banks can be established. We regard this as essential. If it is found to be impossible, then it is our opinion that no new Mortgage Banks should be opened until further experience has been gained by those already in existence.

We do not favour the proposal that Government should give further financial support unless the alterations already referred to can be introduced.

The following is our opinion with regard to the main questions which have been summarised in the report of the Central Banking Enquiry Committee:

(1) What should be the economic purposes for which long term land mortgage credit might be beneficially applied to agriculturists? We agree with the decision arrived at by the Registrars Conference of 1926, that no money should be advanced which is not economically profitable to the borrower, and with the principal objects as outlined by them, which are as follows:

(*a*) The redemption of land and houses of agriculturists.

(*b*) The improvement of land and methods of cultivation and the building of houses of agriculturists.

(*c*) The liquidation of old debts.

(*d*) The purchase of land in special cases only to be prescribed in the by-laws.

(2) The period must depend on the purpose for which the money is to be advanced. They should be granted for stated periods of 5, 10, 15, with a maximum of 20 years. Sound management should enable banks to extend the period even to 30 years. but we do not recommend this until success has been attained.

(3) Whence should mortgage banks derive their working capital? There is only one way by which Land Mortgage Corporations can be financed on sound banking principles.

1. Share capital.
2. Debentures.

(*a*) The share capital should be provided by the provincial Government with a paid up issue of 10 per cent. of the amount which may be required to establish the corporation.

(*b*) The Debentures should be issued in the market without a special guarantee of the Government. We consider it sufficient safeguard that the capital taken up by the Government will be liable for payment of redemption and interest of the debentures together with sound mortgage securities. We are of the opinion that if the necessary alterations are made in the laws of the land, and if sound business management is introduced, the debentures of mortgage banks would speedily be recognised as gilt-edged securities.

(*c*) The proportion of share capital to the debentures issued should be as 1 to 5.

(*d*) In order to safeguard the risk to the corporation arising from drought or other uncontrollable causes impairing the ability of the ryot to meet his obligations we suggest the following:—

That debentures should be issued for a period amounting to 25 per cent. longer than the average period for which the loans are granted, in other words, if the loan period is 15 years then the debentures should be issued in terms of 20 years.

(4) Should land banks be permitted to receive deposits like the co-operative central banks or the joint stock banks, and if so, for what purposes and under what safeguards regarding fluid resources, etc.?

If our recommendations are accepted, this point does not arise. District land banks should act as an agency for the sale of debentures to be issued by the provincial mortgage corporation.

(5) What should be the relation between the Land Mortgage Bank and the ordinary Rural Credit Society where they co-exist?

The relation between Land Mortgage Banks and short term credit banks should be a very close one. It is indeed essential not only to save overlapping but also administrative and supervision expenses. We suggest that the District Land Bank should be housed, where possible, in the same building as the Central Bank of the area. Careful consideration should be given to the advisability of combining the management of these banks under one head with of course the necessary assistance. It would be possible to secure a higher standard of management. If the man at the

top can be depended on, then efficiency and security can be relied on. The Central Bank and the Land Bank would have the further benefit of having the advantage of knowledge in the possession of the respective banks about the financial position and integrity of their clients. The transfer of money from one bank to another must of course be strictly prohibited.

(6) Should the Government give any financial assistance to these banks, and if so, what form should it take?

This question has already been answered in the main. The proportion of loan to the security will largely depend on the alterations which may be made in the existing laws to which we have already referred. In the event of the alterations being made, we suggest that 50 per cent. should allow a safe margin. Advances should be limited in the early years to a sum not exceeding Rs. 5,000. We cannot recommend that large blocks of capital should be granted on any single property until experience has been gained. We suggest that the payment of capital and interest should be done on the lines adopted by the English Land Mortgage Corporation. They are combined in one charge which is worked out on a percentage basis.

It is highly advisable that the general financial position of the borrower should be investigated before a mortgage is granted. No good will result in a loan being granted to a cultivator whose net income renders it impossible for him to meet his debt charges with reasonable regularity. We also suggest that steps should be taken to place the giving of loans under the "Land Improvement Loans Act" with mortgage banks. A separate memo. is attached which outlines the methods adopted in the Punjab for basing the amonnt of loan granted. The memo. is by one of the acting officers in the Punjab at our request.

Reference has been made to the advisability of establishing one Central Mortgage Corporation to include the whole of India. We cannot recommend this. The conditions existing between the various provinces are diverse, moreover the area to be covered is too great. We recommend that a Mortgage Corporation should be established in each province and financed on the lines already indicated. The Corporation would advance moneys to District Mortgage Co-operative Banks. The Directorate of the Provincial Mortgage Corporation should consist of the Registrar as Chairman. In the event of our recommendation with regard to bankers and accountants being adopted, we suggest that they also should be on the Directorate together with another of indisputable ability and authority in the province. The remainder of the Directorate would consist of representatives from the District Mortgage Banks. We would recommend that the by-laws of the Mortgage Banks already in existence in the Punjab should be used as the basis for the rules and by-laws of the District Banks.

1. The standard of assessment in the Punjab is a proportion of the "net assets".

The "net assets" of an estate means the average surplus which the estate is anticipated to yield after deduction of the expenses of cultivation. A full fair rent paid by a tenant at will, though often falling short of the net assets is assumed for the purposes of assessment to be a sufficiently near approximation to the net assets of the land on which it is paid.

2. Prior to the recent (1928) Punjab Land Revenue Amendment Act, the theoretical standard of assessment was "half net assets", but this standard was never approached in practice. The Land Revenue Amendment Act (1928) reduced the standard of assessment from one half to one quarter of the net assets, and it also extended the term of future settlement in fully developed tracts to forty years. The previous period of settlement had varied from 20 to 30 years. The half net assets represented a maximum—the assessment of an estate was always fixed according to circumstances. Accordingly the percentage of net assets even under the old assessment rules varied considerably, district by district, the range being from about 20 to 33 per cent., occasionally approaching 40 per cent. The passing of the Amendment Act (1928) involved (in fulfilment of a promise) a reduction in the assessment of several districts which had been assessed after 1921, in order to keep the assessment within the statutory limit of 25 per cent. of the net assets prescribed by the new act.

3. 45 per cent. of the cultivated area of the province is tilled by the proprietors themselves. 8 per cent. is in the cultivating possession of occupancy tenants. 47 per cent. is in the hands of tenants at will out of which 33 per cent. pay in kind. 9 per cent. pay cash rents (mainly in the SE of the province). Other rents are land revenue *plus* a proprietory fee (4 per cent.), etc.

4. With so much land under *batar* or kind rent, the two factors in the produce estimate, *i.e.*, prices and outturns are very important. It has ever been the practice in fixing commutation prices for the purpose of assessment to adopt a very cautious range of prices. The area under wheat in the Punjab is 9½ to 19 million acres. Wheat prices were (pre-war) Rs. 3 or less. Since 1922 Punjab wheat prices have varied from Rs. 3 to Rs. 5/3 per maund, *i.e.*, up to 1929. Settlement officers have rarely taken anything like the average price prevailing in the decade preceding a settlement as their commutation price. I have not figures to hand, but I remember my D. G. K. settlement (1919) when I took Rs. 2/4 per maund for wheat which seemed safe enough. The high prices which prevailed post-war have made assessments very light and have encouraged a fantastic desire to take up land as an investment.

5. In the year 1929 the sale price of land for the province as a whole represented 245 years purchase of the land revenue on the land—in the previous year the figure worked out at 273. Likewise the mortgage value of the land, the ownership of which was mortgaged in 1929 represented 118 times the land revenue assessment, or about the same figure as in the previous year. Agricultural prices only experienced their catastrophe decline at the beginning of 1930 and the sale and mortgage values of the succeeding year (not yet available) will show a heavy drop, but there is plenty of room for it.

6. In view of the acute depression in prices a circular has been recently issued (January 1931), to the effect that no advance will be made to a mortgage bank if the maximum loan allowed under its rules exceeds Rs. 5,000 or 20 times the land revenue of the land mortgaged, whichever is less. The land revenue criterion is eminenlty safer.

7. I append some figures which may be of interest.

Average recorded sale price per acre of Gujranwala land.

Year ending Sept. 1928.	Year ending Sept. 1929.
Rs. 402	Rs. 372

Average mortgage money per acre on the whole area mortgaged.

Year ending Sept. 1928.	Year ending Sept. 1929.
Rs. 174	Rs. 172

Incidence of land revenue in the province per acre.

On total area.	On cultivated area.
Rs. 1-1-11	Rs. 1-15-7
Varying per district from—	
Rs. 0-3-2 (Mianwali) to Rs. 5-0-6 (Lyallpur)	Rs. 0-8-0 to Rs. 5-7-4

This is for the year ending September 1929.

CO-OPERATIVE BANKING AND AUDITING EXPERTS.

The co-operative movement in India is based on what is known as the Raiffeisen system, with certain modifications to meet local requirements of the country. Our tour throughout India, together with the voluminous evidence which has been prepared by the Royal Agricultural Commission and also by the various reports issued by the Provincial Banking Committees, gives the impression that the foundations of the organisation are sound. Unfortunately there are flaws in the building which must be repaired. Reference has been made to them in the report on Rural Finance which has already been issued. They are of such importance as to demand the most careful attention of the Committee. With regard to short-term credit banks, there are two of vital importance. One is the auditing system, the other is banking.

Co-operative credit societies should always be looked on as banking institutions for taking deposits from members or others and lending this money out to other members on good security. The promoters of co-operation are often enthusiasts who look on co-operation with almost religious fervour. It is seldom that the visionary and the sound business man are to be found in one person. Many mistakes have been made and much money lost by neglecting this fundamental need of efficiency. One of the greatest mistakes which has been made by co-operative credit banks, not only in India but throughout the world, has been the neglect of recognising the necessity of introducing sound banking technique. It has been too readily assumed that this knowledge can be secured by studying the theory of banking. This is as impossible as to expect that the theory of mechanics can alone produce a skilled engineer.

In studying a technical point of this nature, which we suggest is one of great importance, it may be of advantage to consider the experience of other countries. Scottish experience might prove to be of interest and

some value. The reasons given for the success of Scotch farmers during the nineteenth century and the early part of the twentieth century, is that rural education was developed in Scotland at an earlier period than in any other country in the world. There is another reason—the enterprise of Scottish bankers. The large city banks in Glasgow and Edinburgh were the first in the world to realise the advantages not only to themselves but to trade, of opening up branches throughout the country. This system expanded rapidly until in the course of little over a generation every small market town in Scotland contained one or, in the majority of cases, more branches of these banks. The method adopted by the governors of the banks was a very wise one. They did not send out into the country city bred managers, they made use of local talent. Country lawyers of standing or land agents were employed. Trained clerks were placed at their disposal. Bank Managers had, therefore, an intimate knowledge of the population whose requirements they were out to meet.

Banks encouraged loans on personal security to hard working farmers of integrity. Managers who knew local conditions served two purposes. Depositors felt that their money would be safe. The banks, on the other hand, had the assurance that they were lending money through agents who had an intimate knowledge of the people with whom they were dealing.

We have no figures before us, but the increase of deposits and credits handled by banks in Scotland during the first half of the nineteenth century must have been very great.

Farmers of honest reputation soon found that they had easy means of increasing their production by securing loans at a cheap rate of interest from the banks. They were also encouraged by this means to enter into vast schemes of improvement in draining waterlogged land and rebuilding their homesteads. These improved buildings and drainage schemes resulted in greater efficiency.

The banks never charged a higher rate of interest than 1 per cent. above bank rate with a minimum of 5 per cent., nor does it vary. The point arising out of this is of vast importance. Because comparatively simple but sound banking methods were available, Scottish farmers had the advantage of securing cheaper credits than any farmers throughout the world. This credit was not confined to men who could only give security. It was granted with freedom, provided the reputation of the farmer was sound and that the agent was satisfied that the money was being spent on the purchase of stock or for increasing the productivity of his holding.

There is a difference between the Indian ryot and the Scottish farmer. The latter dislikes debt and will, generally speaking, only enter into debt if he thinks his position will be improved by doing so. After the debt has been incurred he will make the utmost possible effort to pay off the debt as quickly as possible. The attitude of the Indian ryot towards debt is different, but against this disadvantage the co-operative credit banks in India have one distinct advantage. They have the unlimited assets of the members as a charge against the debt.

The Scottish farmer is also, from a banking point of view, much more attractive because of the sizes of his holding. Fifty acres are considered a small farm there. It is hardly necessary to add that co-operation is the only possible credit system which can improve the position of rural India.

Scottish banking methods not only provided cheap and ample credits but at the same time encouraged deposits and the current account and cheque method of doing business. The hoarding of savings in the proverbial stocking became a thing of the past. Deposits in the coffers of the banks, which were previously lying idle, expanded credit enormously. In other words money bred money.

The system was also responsible for introducing efficient business methods such as book-keeping and sound marketing into ordinary farming practice. The sale of produce was centralised in large, well-equipped markets, where the maximum of competition was ensured. The cheque paying and receiving method, being easier than cash transactions, also encouraged business and increased production.

If the same precautions were taken in securing efficient banking throughout the whole co-operative movement in India, as there are in Scotland and other western countries, the progress of co-operation in this country would have been greater and the ryot would benefit by receiving his loans at a lower rate of interest. Inefficiency means dear money. To deal leniently with the backslider or defaulter, as is so often done in the co-operative society, merely means that the hard working and thrifty ryot has got to pay for the follies of his neighbour or of the organisation. We suggest that, in order to safeguard the interest of depositors and of the cultivators who have ultimately to bear the burden, trained bankers should be added to the staff of each province. It is possible that one banker of indisputable ability and experience would be sufficient, and that under his guidance a staff sufficient to safeguard the strictly banking side of the movement would very soon be trained. The Punjab has the advantage of a banker of this description whose work has, we were informed, already been of enormous benefit to this province. Mr. Darling in his annual report for 1931 makes the following statement with reference to this appointment. "His long experience of joint stock banking is not only of great use to the Registrar but his advice is freely sought after by the Central Banks".

When the banking and auditing technique of the co-operative movement in India is as perfect as it is in European banking institutions then it will be found that Co-operative Banking will grow of its own momentum. The result of these reforms in the course of a few years will probably be that money could be lent to the cultivator perhaps at 2 per cent. less than at present. The cost of ensuring efficient management through banking and auditing would prove to be a fraction of this amount.

Co-operation is not philanthropy, it is a business institution. It is not a co-operative system dealing with a percentage of the rural population which must be envisaged; it is an organisation that will ultimately turn that comparatively trifling percentage of the whole into a hundred per cent. unit. This can never be brought about unless the highest possible degree of efficiency can be secured in the internal organisation.

Expert Accountant.

We also advocate that to each Provincial Centre there should be attached a highly trained expert accountant. He would, under the Registrar, be responsible for supervising audits and the methods to be adopted, and the training of the auditing staff throughout the Province. A man of

marked ability is essential. The Registrar would then, in having under his control real expert assistants in banking and auditing, be in a position to give more of his time to the general organisation and spread the movement throughout his province. His energies must be devoted to a greater extent than is now the case to extending the sphere of co-operation in the manner which we have outlined elsewhere.

Registrar.

The status of the Registrar should be one of the very highest in the Province. All authorities are agreed that in co-operation lies the one hope of rural India. The responsibility of the Registrar is, therefore, very great and is of such nature that it should only be placed on the shoulders of men of proved capacity and administrative ability of the very highest order.

Currency Accounts and Cheques.

Another of the aims of co-operative banking must be to introduce, in however simple a form, a current account and cheque paying system. It is our opinion that no reform can be of greater advantage, in the banking sense, than this. The development of the current account and cheque paying method of transacting business is a very great step in advance. In England the habit is universal amongst large and small cultivators. Joint Stock Banks are now endeavouring to extend the system in such a way as to meet the needs of the smallest of their customers. We have already referred to the advantage which modern banking conferred on Scottish farmers. Current accounts and cheques have simplified business and laid the foundations for simple book-keeping amongst the agricultural community. It encouraged the deposit habit. If a cultivator is paid in hard cash or notes then he is much more likely to keep his savings in the proverbial stocking. Another effect of the cheque habit is the assistance it gives in the developing of organised marketing. When a cultivator can only be paid in cash he will think twice about taking his crop to a central market where he runs the risk of losing the money received or of having it stolen from him on his return journey. He is, therefore, glad to sell his produce on his farm to a local dealer. The first step on the road to systematic and sound marketing methods is to have the farmers' produce sent to a central depot where it can be handled and graded efficiently. From this point of view alone, it is highly desirable that the current account system in however simple a form and however limited a scale should be one of the aims of the co-operative banking movement. During our tour throughout the country nothing gave us greater pleasure than to find that a start has been made even by a primary society—The Ichra Co-operative Society Limited, a primary society on the outskirts of Lahore which has taken steps to establish this system. Drawing of cheques on current accounts was introduced on the 1st of February. We are satisfied that the society has reached such a stage of development that there is every likelihood of real success being attained. We suggest that the attention of the leaders of the Co-operative Movement should be drawn to the possibilities of introducing this system in a very guarded way. In those societies that have reached a sufficiently advanced stage of development the addition of expert bankers to the co-operative staff will be of enormous value in bringing this about.

We would remind the Committee of the words of Jules Simon—"The greater banker in the world is he who disposes of the proletarian's might". The introduction of the current account system would be a great advance towards this end.

In order to encourage the use of cheques we would urge the desirability of Government accepting payment of land revenue in this way. It would be a direct incentive of no mean value.

Co-operation and the Reserve Bank.

Consideration must be given to the financial requirements of the co-operative system in so far as they cannot be met out of deposits. At the present state of development several Provincial Co-operative Banks have more money at their disposal than can be used for granting sound credits. Large amounts are invested in Government Securities. These are the first resources to be tapped when the demand for credits is such that a larger working capital is required. By working capital we mean the amount needed for meeting the normal demand apart from emergency exigencies during the busy season. Government securities should be sold so far as necessary to meet the normal demand. The remaining securities can be used as collateral for credits either from Commercial Banks or (in the event of its being established) the Reserve Bank in order to meet the temporary emergency requirements.

We must also give consideration to the way in which further financial requirements, which may and probably will arise in future, should be satisfied. At the outset it must be made clear that apart from temporary exigencies, the Reserve Bank cannot grant much help under ordinary conditions. It is necessary that this bank should keep its position fully liquid. The Co-operative Banks do not at present finance marketing or trade transactions. The strength of the Reserve Bank would be endangered to a serious extent if it were forced to tie up part of its resources in credits in order to supply those banks with what we have described as working capital.

We suggest that the Government should consider the advisability of placing a part of the monies derived from postal savings at their disposal. This in our opinion should be done under the direction and control of the Reserve Bank. It could satisfy itself better than the Government about the soundness of the demand and the desirability of their compliance. The Bank in short would act as Agents for the Government.

Finally, we feel compelled to stress the necessity for the co-operative banking movement restricting, as far as possible, the disbursement of its profits and to build up strong reserves out of these profits. These reserves—we refer to those of the Central and Provincial Banks should not be used for granting credits, but should be invested in gilt-edged securities. They will ultimately enable the movement to effect a gradual reduction in the rate of interest charged on its credits. Reserves will also enable it to obtain credits in times of emergency.

Rural Reconstruction Societies.

While we were at Lucknow we visited three villages in which co-operative societies had been established. The first two were typical examples of the failure of credit societies; one society was in the process of liquidation and the other was not, we were inclined to believe, solvent. We

investigated in each case the reason for this. We are of the opinion that more than one reason are responsible; illiteracy, their inability to realise the simple principles of co-operation and their fear of incurring joint responsibility for debts incurred by their societies. The main reason probably arose from a bad example of landlordism. In each case the landlord was non-resident, his rents were collected by an agent. The landlord dared not visit the village in person, the rents were collected on his behalf by an agent, but even the agent could not visit the village unless accompanied by others. The landlord did not only secure his legal rents but also compelled the villagers, by various means, to contribute further monies to his exchequer in the event of a new car being bought by him Tenants were by one means or another forced to pay extra monies. The average increase beyond fixed rental was about 50 per cent. In the event of rents or the additional monies charged not being forthcoming, the villagers were beaten and in some cases a form of torture was used such as being forced to stand on two bricks wide apart in hot sunshine for considerable periods.

In the other cases the landlords were resident, about nine in number. Before our arrival the villagers were informed that no complaints must be made to us but we came to the conclusion that here also the zemindar system was working unsatisfactorily and was very largely responsible for the position of the credit society. About 5 per cent. above fixed rental was forced out of the ryots and labour services had also to be given during the planting and harvesting season. The zemindars were amongst the biggest creditors of the society, and the liquidator was having great difficulty in securing repayment of debts incurred. We came to the conclusion that in each of the two cases referred to the beneficial results of a prosperous credit society, granting loans on less rates of interest than money-lenders, would disappear into the hands of the zemindar.

If those two cases are typical of the position in villages owned by zemindars in the United Provinces, then it is a waste of public monies and efforts to endeavour to introduce a sound co-operative credit system until legislative steps are taken to safeguard the interest of the ryot against rapacious landlords.

The third and last village was an example of successful co-operative effort. Here also credit societies had been established some years ago. It was not functioning successfully. Two and a half years ago a rural reconstruction society, generally known as a rural uplift society, was started. The objects are—

(1) To improve the physical, social and moral conditions of the members, and their efficiency generally.

(2) To introduce improvements in agriculture and in cattle husbandry.

(3) To introduce improvements in cottage industries, to improve communications and ensure improved marketing of village produce.

(4) To assist in arrangements for the education of members and their children and for their training in the art of expression through games, songs, dramas, design and worship and of other useful occupations which render life of the community more pleasing and liberal.

(5) To spread correct knowledge about hygiene and human nutrition and about infectious diseases. Also to undertake welfare work for expectant mothers and children.

(6) To provide means for equitable settlement of disputes and thereby discourage unnecessary and frivolous legislation.

(7) To promote other measures designed to encourage in the members a spirit and practice of thrift, mutual help and self-help.

The name of the village is Dhanwara. It is within 17 miles of Lucknow. We considered it to be one of the most successful co-operative efforts which we have ever seen. We were assured by the registrar of the Province who accompanied us, that previous to the establishment of the uplift society it was a typical village in his province. We have no reason to doubt this.

The village consists of 250 inhabitants. The land is of average quality. It belongs to a lady zemindar who is non-resident. It is managed by a retired government official who is very strongly of the opinion that great progress has been made by the village since the society was established. There are two societies, one the credit society and the other the one referred to. The former has 20 ryots and the latter 60. Every ryot is a member and every member pays one rupee per year contribution. The management consists of 9 representatives, together with the local revenue officer, known as a tahsildar, the co-operative inspector and the health officer, who are ex-officio members. The society was started by the inspector.

We inspected the village and part of the crops. A communal garden was shown to us in which flowers were being grown. It was well kept. We saw the children and their teacher at work, their bright and happy appearance together with their keen intelligent faces impressed us. A simple village library, containing about one hundred books, has been started and it is much appreciated by the inhabitants. In the same building is a little dispensary containing Indian and European drugs. Previous to the starting of the society the number of literates on an average in the district was about 4 or 5 per cent. now 30 per cent. can read and write. Not only are the young children taught, but there is also an adult class. Admonitions on neat enamel plates are placed on the walls and trees. The fire brigade gave us a display of fire drill. The general cleanliness of the streets and the houses was very marked. The wells have been improved. We were informed that a great improvement had been effected in the general cleanliness and hygienic habits of the people. Manure is no longer allowed to be left in or near the houses; it is now stored in proper pits on the outskirts of the village or in the fields. Drainage pits have also been made. We saw improved varieties of wheat growing, which the ryots informed us produced 25 per cent. more than the old standard kinds.

The villagers are also planting improved sugarcane. Modern Meston ploughs have not only been introduced but are being extensively used. Irrigation wells have been improved and their use is now very largely on the co-operative principle. Games and sports, including gymnastics are becoming popular. A display was given us. Dramas are got up and are greatly enjoyed. On festival days the whole village now combines and the feasts and entertainments are much less costly than before. Dancing girls, for instance are no longer engaged and the crushing debts formerly incurred for marriages and other ceremonies are now unknown. Even a

voluntary police system, to safeguard the village against theft has also been established. All disputes are now settled by the society. Since it has been started not a single case has been taken to the courts. Habits of thrift and economy have taken firm root. Every male member must be sent to school. Fines are inflicted if this is not done. Young girls are also encouraged to attend. Owing to the strict caste system girls over eight years of age cannot attend, but we were told that, in the event of the village being given the services of a lady teacher, parents would allow the older girls to make use of her services.

We asked the villagers, who were assembled to meet us, what their choice would be if forced to choose between their uplift society and their credit society. Their vote was unanimous in favour of the former, and was given in such a manner as to leave no doubt in our minds. This is very important as the credit society is now in a sound position financially. Another interesting development of, I consider, far reaching consequences is that all the rents are now paid through the society to the agent of the zemindar.

We were satisfied not only from the facts which were placed before us, but even more from the general tone of the village, that however utopian our description would appear to be it is not overdrawn.

We were assured by all the parties that the village was a strictly representative one before the society was started. It has, it must be admitted, a distinct advantage having a lady zemindar who was not rapacious.

The first impression to draw from this example, is whether there is not co-operative work to be done of even greater importance than the establishment of credit societies, and indeed before credit societies can, generally speaking, function properly. Before credit can be advanced with any safety the integrity of the land individually and collectively must be of at respectably high standard. If done, collectively through a co-operative society, then they have to be trained not only in the simple principles of co-operation, but in understanding the implications of collective responsibility. Without this it would be impossible to look forward to a self-supporting co-operative movement. It is highly necessary that whatever is done this should be the goal to aim at.

The second lesson which we can learn on the successful result of co-operation in this village, is that unless steps are taken to educate the villagers in the need of reducing their expenditure on marriages and festivals, the public monies expended on saving the ryot in paying exhorbitant rates of interest are very largely lost to him in other ways. Perhaps the most important factor of all is the possibility of the ryot, by co-operative effort, to save himself from bad landlords. If the co-operative spirit, as seen in actual operation in this village, can be introduced throughout the country, then co-operation can be much more effective in putting an end to the malpractices of the zemindar than any form of legislation. Not only will it be much more difficult for the zemindar to screw monies out of his tenants, but if the village can combine to safeguard themselves and collectively refuse to submit to unfair treatment, the zemindar is powerless to do any harm.

A very careful enquiry should, therefore, be made into the possibility of introducing, if not before credit societies are established, then at the same time, Rural Reconstruction Societies.

The Money Lender.

The money lender has, in the past, filled a useful purpose. Without his moneys agriculture and trade could not have been carried on. When co-operative credit banks were established to provide capital to the agriculturist at less cost, it was taken for granted that the money lender was an enemy who must be destroyed. It might have been better to have made an endeavour to use his wealth and experience inside the co-operative movement. The money lender must realise that nothing is permanent and that his unorganised methods can no longer meet the requirements of the modern world. The co-operative organisation should not, on the other hand, refuse to consider the possibility of making use of his capital and experience. It may be that, if this combination of forces can be brought into being, we shall have an organisation capable of overcoming all difficulties. We shall then have the organised strength of the cultivator on the one hand and on the other the collective wealth, business experience and money sense of the bania. It is probable that his capital will provide all the necessary funds required to finance the movement. We suggest that it is only by this means that the whole of rural India can become one great co-operative banking unit within reasonable time. There are dangers, just as there are in harnessing any great forces, but they are not insuperable.

It has been too readily accepted that in making such attempt money lenders will prove to be the more powerful force of the two, that he will kill the weaker. Is this fear justified? Against the unorganised cultivator he is all powerful, but that he and his class can injure a people, who can use their combined strength through such a mighty force as co-operation has proved itself to be, is by no means likely.

We suggest that the leaders of co-operation should consider the possibility of welcoming the co-operation of the money lender, not only in the country, but in the towns, on the following terms:—

(1) That he should become a member of his local society.

(2) That after joining his society no further loans shall be granted by him.

(3) That no moneys advanced by co-operative banks to debtors shall be accepted by him to recoup himself for loans outstanding, excepting under the following circumstances—

(*a*) When local directors give their unanimous consent.

(*b*) When certified by the district inspector.

(*c*) That any money advanced by the society to repay a money lender debt shall be covered by the money lender investing in the society at least double the amount repaid to him.

(*d*) That the amount of the repaid debt shall be considered as a long term investment which cannot be recalled for a period of 5 (?) years.

(4) He shall be allowed to fill any position to which he may be elected by the vote of the members. His experience as a director or on the management staff of central or provincial bank, might prove to be invaluable and would overcome the anomalous position which exists at present that all directors represent debtors.

will be objections to the scheme. This Marketing Board while it will have co-operative representatives on its constitution, will not be directly responsible for marketing within the co-operative movement. That may be another objection. So far as the actual co-operative marketing from the point of view of the ryots is concerned the co-operative council would be of enormous assistance in working out the details and then help in co-ordinating the whole work through the Central Marketing Board.

Mr. Ramdas Pantulu: I fully realise the importance of your suggestion. But may I ask whether it is your idea that this body should theoretically render assistance to the movement or should practically guide the working of the marketing movement

Mr. McDougall: It certainly will be required to give all the information and make itself responsible for making all the necessary investigations, but at the very commencement the Central Council, when established, should co-ordinate all the co-operative institutions throughout India. My desire is that this Council should take a very great interest in the problem of marketing. I think there is a very great field for the Council to work out and to disseminate information about marketing and wherever it is found by the Board that marketing is possible, then in some way or other it will have to stimulate interest in the provinces.

Mr. Ramdas Pantulu: You do not contemplate this to function as a co-operative marketing board?

Mr. McDougall: That again, I think, should be left to the body when it is set up to decide details. I should, however, say that it is only after the most profound and careful investigation that it is possible to fix the real amount of work that is going to devolve on that co-ordinating authority.

Mr. Ramdas Pantulu: My point is that I might be in favour of a Central Co-operative Council—whatever be its constitution—so long as it confines itself to advisory functions and educative functions and so on, but if you think that the question of its actual functioning as a co-ordinating board be also left been probably, I may not agree to its being so.

Mr. McDougall: The marketing of Indian—let us take cotton for instance,—is not confined to one province. If you are going to establish co-operative marketing, you have got to have a scheme which will include the whole of India in its sphere. If, for instance, you get to a stage when all cotton will be graded to certain standards and sold by co-operative organisations, my feeling is that this is the only Council that would be able to co-ordinate these provinces and get them to work uniformly in that endeavour.

Mr. Ramdas Pantulu: A kind of help you have mentioned with regard to the cotton sale is now being done by sale societies and the necessary assistance is being rendered by the Provincial Governments through the Registrars. That might probably become the Marketing Board and the Registrar may be relieved of this function, but I really cannot see how it legitimately comes within the functions of the Central Co-operative Council.

Mr. McDougall: Let me give you an example. The Ministry of Agriculture in England has a marketing department which is responsible for all the research work. It has many committees of traders and farmers

acting in consultation with it in an advisory capacity. That department does not organise actual markets. It only does research and advisory work. It brings the traders together to discuss these various problems and the actual work of organisation is left to a body which is working in close co-operation with it.

Mr. Ramdas Pantulu: Are you content with entrusting this Central Co-operative Council with the functions of research and advice and leave the actual work of organisation to the different bodies?

Mr. McDougall: I think you must have some co-ordinating authority in your provinces, and I could think of a no better authority than the Central Council to do this. I suggest that very strongly. It is utterly impossible for me, coming out here at such short notice, to go into details, which would meet the requirements of your country.

Chairman: If there is a central marketing organisation and it arranges about the grading, etc., the point is why it should be left to the provincial co-operative movement to organise and promote co-operative marketing and arrange for grading on the lines laid down by some central authority. At present what is done in regard to cotton is the Central Cotton Committee through their experts look to the grading and other matter. If there was a central institution which lays down the essential principles of co-operative marketing, Mr. Ramdas's point, to my mind, seems to be why not leave the matter thereafter to the provincial co-operative authorities.

Mr. McDougall: The provincial authorities will certainly be responsible for the work of the primary societies. That I consider to be the provincial work.

Chairman: You have in paragraph 1 (*a*) suggested the co-ordination of all co-operative interests in India and then you have made some other suggestions.

Mr. McDougall: To promote and organise co-operative marketing, these representatives from the various provinces will sit in consultation and discuss the various marketing problems as it affects the country as a whole and will endeavour to outline schemes which can be applied to the provinces and which should be acceptable to the latter.

Mr. Ramdas Pantulu: If you stopped with saying "promoting" without saying "organise", then there may be no objection.

Mr. McDougall: I have no objection to do that provided that through the Central Council you will attempt to get the various provinces united in whatever steps that are taken to secure systematised marketing.

Chairman: I do not understand the latter part of it and that is a matter where the basic principle is involved.

Mr. Ramdas Pantulu: I might say that it is the crux of the whole thing, whether it is to be only an advisory or an organising body.

Dr. Friederich: Speaking for myself, I personally understood, when this matter was discussed, that this is to be a purely advisory board.

Mr. McDougall: I am quite willing to withdraw the words "and organise" from (*c*) and "organise and" from (*e*).

Mr. Ramdas Pantulu: Then summing up the results of our consultations, you agree that the functions of this Board should be purely of an advisory character and not controlling.

Mr. McDougall: As I have already told you it is a matter, in my opinion, which has got to be carefully gone into by the authority responsible for framing the constitution of the Co-operative Council. Personally, I should prefer to have a really strong Central Council. I am, however, aware that owing to Provincial autonomy that may be a very difficult matter.

Mr. Ramdas Pantulu: Let me tell you my small experience which has some direct basis on your proposals. Nearly a year or a year and a half ago we started an All-India Co-operative Institutes Association to co-ordinate the activities of the various provincial institutes in the country. We have actually set one in working order with that veteran co-operator Sir Lalubhai Samaldas as the Chairman. We framed a set of bye-laws which we discussed at a Conference held in Bombay which was attended by representatives from 18 provincial institutes. You may take it from me that every word in the bye-laws was thoroughly scrutinised and they wanted the Conference to delete all words purporting to mean any *control* over the provincial associations. So much so the present organisation is completely bereft of any controlling authority. Therefore, while I am in favour of your scheme of a Central Organisation, I want to advise you to agree to that organisation having only advisory and research functions so that there might be unanimity of agreement on this matter.

Chairman: I look at this from the practical point of view. My point is that in view of the existing system of Governmental control and working in this country, I for one feel that it will only be good on paper and it may be still barren in its results.

Mr. McDougall: I understand that you have retained certain powers to the Central Government while on other matters autonomy has been conceded to the provinces.

Chairman: We have not centralised more than it is at the present moment. On the other hand we have decentralised several subjects which are under the control of the Central Government at present. At the present moment it is only a provincial matter.

Dr. Trip: Does this also include the question of the general marketing in the country because I see great importance in the proposals of Mr. McDougall (with regard to a Marketing Board for all India)?

Chairman: In regard to marketing, I shall not touch that subject until I have got the views of the Vice-President of the Imperial Council of Agricultural Research.

Mr. McDougall: Perhaps Dr. Hyder will be good enough to tell us the reason why the Imperial Council of Agricultural Research had to be co-ordinated.

Dr. Hyder: We had to face this constitutional difficulty as regards agriculture. We studied the constitution of all Federal countries. We

had the advantage of having expert witnesses in London who came and explained to us how the things were managed in their country. This is given quite clearly in the volumes of evidence of the Royal Commission on Agriculture. You know how the States in America insisted upon State Sovereignty and how they went to the length of declaring war on a particular issue. Nothing in the constitution of America is mentioned except the words "welfare of the people of the United States". Round that welfare they established this department of Federal Agriculture. I shall read to you what they do in America at present as contained in para. 37 of the Report of the Royal Commission on Agriculture:—

> "While many a question in regard to the use of these Federal funds have arisen in the main, the supervision exercised has been in the nature of advice or suggestion, with the speedy correction of any doubtful procedure to which attention was called. There is perhaps no similar example of the administration of so large a public sum for research in any line, and the spirit in which it is met is a sign of the community of interest and the desire to secure the funds the highest practicable degree of productivity."

The question that was put to you was why is it that these units came together? There is the common need for pooling experience for getting on with the work. The problem becomes one of constitution, how to reconcile without force, without compulsion, something from the centre with the undoubted independence of the provinces. If I sum it up in one word, the experience of all these federal countries is that the function of the centre is to provide money but it should take care that control does not follow finance and it reduces itself to friendly help, guidance, direction, but not in the nature of control. We are feeling the need for that. Take for instance education. We all work in different directions but we felt the need for coming together to pool our ideas. Out of that one conference was born an Inter-University Board. Of course, in the Universities we are very independent people. I do not think two professors like to remain together for a long time. But to pool our experiences is supported partly by the Universities and some financial help is given but we do not dictate to the Universities. We say—this is the better way, follow it. It is up to them.

Mr. McDougall: With a movement, the motto of which is 'All for each and each for all' do you consider that executive powers given to a central authority, remembering that motto on which co-operation is wholly based, is impossible?

Mr. Ramdas Pantulu: Your idea of vesting power in a central authority in co-operative organisations is based upon the idea of federal control.

Mr. McDougall: So it is here.

Mr. Ramdas Pantulu: It is not so here. You are trying to vest power over the provinces in the Central Council which is not composed on the federal basis. If it is actually a Union of the provincial institutes, as our union is, it is a different proposition. The proposition 'each for all and all for each' will apply only when the central control of the federal

body is based on the democratic control of the Unions. If you show me that you can secure that, the difficulty will be over. But let me tell Dr. Trip, you need not go away with the idea that if the functions of a body like the one you suggest are merely to be advisory that they will not be effective. The Research Council is a body incorporated under the Indian Societies Act. Originally, the idea was to constitute it under the executive order of the Governor-General in Council, framing rules retaining power to remove and appoint members and so on. But at the first meeting, when it was organised, the general idea of both the officials and non-officials was that the better system was to remove it from the Central Government's purview except for certain purposes of helping it. Therefore, we now register it under the Indian Societies Act as a corporation and its functions are research and advisory so far as the province is concerned. As a matter of fact provinces have not only resented the arrangement but they have taken kindly to it that there are more and more applications for help from this body. Government gave a grant of 25 lakhs lump sum first and 7½ lakhs recurring and more money will be forthcoming because the Government have shown their full sympathy with this object. Therefore, though it is a non-official organisation, organised as a corporation under the Societies Act, it has very many potentialities without any power of control. It is exercising enormous influence. All the provinces are flocking to it for grants and for advice. Therefore, even if your scheme for the centralisation of co-ordinated research and other things is planned somewhat on the lines of the Research Council to which Government will contribute its quota and the provincial organisations contribute their quota, I promise you it will be a very useful and strong body in spite of the fact that theoretical control is not embodied in it. If you can modify your scheme so as to eliminate the element of control in it, it might have a very good chance of being accepted by the committee.

Mr. McDougall: You have put up a very good case but we have to go back to constitutional matters again when I say that, in my opinion, a great mistake was made in not having a federal control over agriculture as a whole.

Mr. Ramdas Pantulu: It is in the melting pot now. It is not too late.

Chairman: You say that about agriculture, other people say that about industries.

Mr. McDougall: Industries are localised.

Chairman: That is your view, but many people strongly take the view that industrial development can only be possible on right lines if it is centralised. Once we start on these lines why could not education be a federation subject then? It is one of the most important items in the well-being of a nation. Why should not sanitation be a centralised subject? As it is, you may not hold that view, but if you had some doctor experts here they would say most certainly. I have had two educationists discussing with me this question of education being a federal subject. Industries, undoubtedly, I know. Then we come back to the position that perhaps having that motto in view the Government of the country should be unitary and not federal. That is the reason I said; I am not prepared here to discuss constitution. I looked at it from a more practical point of view.

Mr. Devadhar: I would add to your definition a substantial contribution from the Central Government. I am also a member of the Imperial Council of Agricultural Research. I doubt very much if the Government of India had not come forward with the initial lump sum of 25 lakhs and recurring fund of 7½ lakhs, there would have been any prospect of getting all the schemes by their own officers. Then there is the Indian Red Cross Society which is a provincial organisation. We do not accept its control. Though the idea of having institutions on a central basis appeared very advisable from the point of view of co-ordination, we cannot go against general sentiment in the first place of people having voice and control with regard to the money which they themselves collect and the work which they themselves have to do. Secondly, that kind of imagination has not yet taken hold of the people where in the interests of the country they will sacrifice their control. My third, argument is this. Everything really has come from the top. If we really want an organisation based on popular will, it must now be given an opportunity to come up from the bottom. These organisations are growing up. I have been in the movement during the last 20 years and I find that the federation spirit is taking hold of the people. If we jump up all at once without having regard to the method which is followed, I think you will find it very difficult.

Chairman: I simply want to say one word. He dragged in the question of finance. There is the feeling, why should money, which is contributed by the tax-payers of Bombay be utilised to improve matters, say, in a backward province like Bihar and Orissa. We shall meet this particular point by putting to Mr. McDougall your suggestion to bring item (*b*) into line with items (*c*), (*d*) and (*e*). If you could cut out the word "organise" in (*b*), if you have no objection to that modification, then my whole idea of this being advisory will be completed.

Mr. McDougall: I am afraid I shall have to know your opinion in regard to the other points you have raised before I shall be prepared to cut out 'organise' there.

Mr. Ramdas Pantulu: Will you cut out the words 'and control'?

Mr. McDougall: No, I could not cut out the words 'and control'. This educational centre must be under the control of some authority. I can imagine no better authority than the representatives who will be appointed by the Central Council by the provinces themselves.

Mr. Ramdas Pantulu: It will have a Board of its own but the promotion of that institution and organisation might well be taken up by a central authority. The Chairman mentioned to you the present difficulty of financing it from the central Government. It is a real difficulty. Therefore, I am contemplating a separate body to actually run it, just as you have a marketing board. This education will also be run by another board but it will give this council all the powers to advise and tell them exactly what they have to do and also have a scheme ready for them. Therefore, if you wish to promote an all-India educational centre for research and higher education and give it its own board, the question of who is to set it up must be considered later. Are you agreeable to that change?

Mr. McDougall: Before I should be prepared to alter that, I should like a little time for considering that.

Mr. Ramdas Pantulu: Would you now like to modify as follows item (*b*) of your first proposal on page 4 with regard to a central co-operative council:—

(*b*) To promote an all-India educational centre for research and higher study and training in co-operation?

Mr. McDougall: No. I should prefer to leave it as it is.

Dr. Friederich: I do not agree with Mr. McDougall. I have already expressed my opinion when we discussed the matter, that the central co-operative council should have advisory functions with regard to the proposals made. I think this central co-operative council could do much more useful work in case it gets advisory functions.

Chairman: It has been noted.

Mr. Devadhar: You want to give it a controlling position?

Dr. Friederich: Not controlling, only advisory.

Mr. McDougall: You have my view. Here there is a difference of opinion between us.

Mr. Ramdas Pantulu: With regard to the constitution of the Central Co-operative Council I have given you a small draft. Will you kindly say whether it will suit you?

The Central Co-operative Council shall be the apex institution for the provincial institutes, on the board of which may be represented, besides the provincial co-operative institutes, the co-operative departments of the various provinces and the Department of Education, Health and Lands of the Government of India. It shall be registered under the Co-operative Societies Act or some other appropriate enactment. We recommend that the provincial Governments and the Central Government should render it such financial assistance as may be necessary to enable it to function efficiently.

Mr. McDougall: This Department will be entirely independent of the Ministry of Agriculture.

Mr. Ramdas Pantulu: Just as much dependent as the present Council of Agricultural Research is.

Dr. Hyder: The Council of Agricultural Research has been declared a Department of the Government of India under the Department of Education, Health and Lands. You may verify this from Sir T. Vijaya Raghava Acharya.

Mr. McDougall: I have no objection if that is what Mr. Ramdas Pantulu contemplates.

Mr. Ramdas Pantulu: The Research Council is a registered corporation under a particular enactment. It is not an actual department, but it has the same effect. Take the Tata Research Institute to which the Legislature sends some representatives. Government finances it, it is represented on it, and has a voice in its administration. Therei is a provision in the constitution of the Research Council that changes are to be made by a resolution of the Council and not by the executive orders of the Government of India.

Dr. Hyder: They have got to go before the Finance Committee; they have got to justify everything, but it was distinctly stated—our Chairman will know what the meaning is—that the administrative officers collectively form either a department by themselves or are linked to the Department of Education, Health and Lands.

Chairman: So far as I know, the Vice-Chairman of that body now ranks with the Secretaries of the Government of India and his work is included in the portfolio of the Member for the Department of Education, Health and Lands. That is what probably you are referring to. The main point is that it is not a controlling authority. It is an advisory body, but since it has to spend money which is given to it by the Government of India, a sort of liaison has been established between it and a Department of the Government of India. Its executive head functions as a Secretary to Government.

Mr. Devadhar: No contribution comes from any provincial Government. There are provincial committees.

Mr. McDougall: When I first thought of a Central Co-operative Council, I wondered if I could make a case for a new Department of State, called the Co-operative Department. From the point of view of the magnitude of the work which has yet to be done I think it will be justified. I then thought it would be unfortunate to separate the Department of Agriculture from that of co-operation and that Agriculture and Co-operation should be linked together. I think it is on the whole better to attach Co-operation to the Department of Agriculture.

Mr. Ramdas Pantulu: Naturally, it will be so. In fact Co-operation is under the same Minister or the Member of Government who is in charge of Health and Lands. Therefore, it may be made an adjunct to the Agricultural Council of Research or it may be another body controlled by some Department for the purpose of administration, but, as the Chairman has said, the more fundamental point is whether the body will have controlling authority over provincial organisations. How to establish a connection between this body and the Government of India does not present many difficulties except to the extent that Government will have to decide for themselves what they will or will not do. So far as we are concerned we can make a recommendation, without infringing upon the functions of provincial Governments or provincial non-official organisations, somewhat on the lines proposed. But the real point is we are depriving this body of all controlling authority and we are making it an advisory and research institute, but you do not propose to deprive it of all controlling authority. That is the real point of difference between you and me. With regard to the constitution it is a matter of no great consequence so long as you do not press for your demand that it should be definitely placed in charge of a minister in a controlling position. The Central Minister may not agree to powers of controlling the provinces, but he will certainly not have any objection to help a body of a research and advisory character like the Research Council. There will be as much objection or welcome to it as there will be to the Agricultural Research Council.

Mr. McDougall: I have discussed it with the present Minister of Agriculture, Punjab, and he was heartily in favour of a Central Co-operative Council. We did not enter into details.

Chairman: With controlling functions or advisory functions? I had great difficulty in regard to a similar institution about roads. There too I managed to start an institution in a tactful manner, but control was objected to. That is the whole point. Perhaps none of us would object to a central institution like the one you propose, but many of us, from the practical point of view, will have strong objections to invest that institution with controlling power.

Mr. McDougall: I differ from the decisions that have already been made with regard to your constitution. I should have kept agriculture as a central subject.

Chairman: I see your point. I may tell you that Sir Thomas Holland in the views he placed before the Joint Parliamentary Committee in 1920 was strongly in favour of federalisation or centralisation of industries. He was not concerned with agriculture. Once we start that, we do not know where it will end. But, so far as we are concerned, we have to draw on the sketch of the picture as it stands.

Mr. McDougall: I consider that an infinitely stronger case can be made for agriculture than for industry. I take my stand on that as a matter of principle.

Mr. Ramdas Pantulu: On page 5 you say, "villagers look upon co-operative funds as Government money". May I know in what province you gathered this impression?

Mr. McDougall: In the United Provinces and the Punjab.

Mr. Ramdas Pantulu: The tendency for the last one decade has been for departmental officers to divest themselves of all financial responsibility and entanglements with regard to co-operative credit. They tell the people that they are not responsible for the financial soundness of co-operative banks. So far as I know, no depositor deposits money in a co-operative bank because Government will ultimately make themselves responsible for repaying deposits if the bank fails. My experience of several provinces shows that people do not look upon co-operative money as Government money. I know they look upon it as money which they can repay at leisure or not at all, but that is a different matter.

Dr. Hyder: However sad it may be, here in every village you hear from the mouths of cultivators that co-operative banks are *sirkari* banks.

Mr. Ramdas Pantulu: So far as I know, people do know that this is not on the same footing as *taccavi* loan or a loan given for land improvement under an Act of Government. I have attended several general body meetings of both village societies and central banks, and I have not heard that anybody was under the impression that co-operative money was Government money.

Mr. McDougall: I can assure you that my very clear impression is, from the conversations we had with many registrars and with many deputy registrars and inspectors, that there is a distinct feeling in the country among the cultivators and depositors that Government is behind the co-operative movement and that because of this, money is perfectly safe. Of course, had I known that my views or statements would be challenged,

I should have taken very great care to note down at the time how these impressions were formed. Our general impression is very strong on this point.

Mr. Ramdas Pantulu: In the two provinces?

Mr. McDougall: Yes.

Mr. Shanmukham Chetty: There is that feeling to some extent in Southern India.

Dr. Hyder: The fact is that people have not fully realised the full meaning of co-operation. They see the Registrar and other officials and come to think that it is *sirkari*.

Mr. Ramdas Pantulu: They exercise their rights very fully. If you attend a general body meeting of a central bank attended by about 300 members, you find what fight is put up by representatives of village societies. They are fully alive to their rights. They are both lenders and borrowers and they fight with regard to rates of interest, instalments, extensions. This can easily be ascertained by anybody who attends a general body meeting, and the Registrar is often helpless.

Mr. Devadhar: When a member is admitted, I think it is made very clear to him as to what the constitution is, what his liability is, where the funds come from. If some people have told you that general members are under the impression that it is all Government money, it was probably to emphasize the difficulty of their work. Our friend, Dr. Hyder, said that they call co-operative banks *sirkari* banks. A *sirkari* bank does not mean 'belonging to Government,' it only means that it is not altogether a thing without any control or supervision, but that there is an Act under which it is registered and is subject to statutory audit, and there are responsible people who keep a watch over it. I should consider it an exaggeration if anybody were to tell me that even as much as 20 per cent. of co-operators believe that co-operative money is Government money.

Mr. McDougall: With regard to Government money you are perhaps right. The impression is that Government are behind it, Government ahe not going to let them down, and, therefore, money is safe.

Mr. Ramdas Pantulu: That is a different proposition.

Dr. Hyder: The whole thing has been clearly brought out in the U. P. report. You will find the true state of affairs depicted there, how they regard co-operation in U. P.

Mr. Ramdas Pantulu: Do people think that Government is lending money?

Mr. Devadhar: They may do it in one place, but not all over.

Mr. Ramdas Pantulu: Nowhere do I think it is considered that it is Government money or Government lend money.

Mr. McDougall: If a Government official goes to the people and says, 'Now I have got this amount. If you can see your way to start a co-operative bank, here is money for it,' I do not think the average ryot would concern himself so much as to find out where the money comes

from. He sees a Government servant coming along, and he looks upon co-operative money as Government money.

Chairman: It is curious to me that an Inspector can go to a village and tell them, 'I have got money and it will be made available for loans if you start a co-operative society.' To my mind, that is not the Government conception of a co-operative society.

Ch. Mukhtar Singh: About 9 months back we applied for 13 societies being registered. Out of them 6 were turned down. Inspectors do not act as Mr. McDougall suggests.

Chairman: Under the present conditions an Inspector cannot go to a village and tell the people, "I have come with a thousand rupees in my pocket. If you were to start here a co-operative credit society, that thousand rupees will be available for the grant of loans to the people.' As I understand the arrangement, when an Inspector goes to a village, he will have to tell them 'Look here, if you form yourselves into a society, produce a statement of your assets, we will fix the limit up to which you can borrow money'. If you accept the responsibility of unlimited liability or limited liability, whatever it is, it may be possible to start an association and grant loans to people". Now the granting of loans depends on two things, firstly, on the Registrar granting registration to the institution and secondly, if local deposits are not forthcoming, on the institution satisfying the district bank if it obtains a loan from the district bank that it would be able to repay the loan to the district bank. Until that stage no money is forthcoming. Therefore, I thought it was purely some looseness in wording. When you stressed the point, the impression I gathered was that the Inspector goes to the village and gets hold of the people and tells them 'I have a thousand rupees in my pocket and if you were to start a society in this village, this amount would be available for loans.' That, to my mind, is not drawing the picture as it should be drawn.

Ch. Mukhtar Singh: The procedure in the United Provinces, at any rate in Meerut, is like this: we send an organizer, who is an official, first he goes to different villages and talks to various people, remaining in the villages for 10 or 15 days and sometimes a month. There is a separate organizing fund for this purpose. Sometimes he has to go three or four times before he decides the proper village where he can start a society. He takes the signature of the villagers and the papers are sent to the district bank. Then the directors examine the papers and if they like, they send one of their director to see for himself whether the right sort of people are joining the society. The papers are then sent to the Registrar who has to sanction the registration. I have never found that all the societies we have sent up have been registered; at least 25 per cent. will be rejected. It is not possible that anybody would go and simply offer the money to form a society.

Mr. Ramdas Pantulu: Let me make my position clear. There are two matters which would certainly suffer if Government had some financial connection. The Registrar usually used to fix before-hand the maximum limits up to which money could be lent to societies. The other service he was rendering was the recommending of loans applied for to the central banks. The loan applications used to be sent through the Registrar and Assistant Registrar and their recommendations used to be taken. In

the last few years Government have distinctly instructed Registrars not to undertake these responsibilities but to leave them entirely to financing agencies, and so in many provinces loan applications do not go through the Registrar or Assistant Registrar. They come to the central banks through the Supervising Body. The Calvert Committee (the Committee on Co-operation in Burma, 1928-29) says that these two functions in Burma should be left to the Registrar, namely, fixing the borrowing power of members and recommending the grant of loans without undertaking any financial responsibility. The Government of Burma, in passing a resolution upon the Report, said:—

> "A more controversial point is raised when the Committee proceed to recommend that the co-operative staff should attempt to advise the financing body whether the maximum normal credit limit of a society is reasonable or not in view of rural conditions and that applications for loans other than crop loans should be submitted through the Junior Assistant Registrar. The suggestion, of course, is that though the responsibility for granting a loan must rest entirely with the financing agency, the advice of the co-operative staff should be at the disposal of the financing agency. As at present advised, however, though they have not yet arrived at a final conclusion, the Government are disposed to feel that even the giving of official advice as to the granting of loans would weaken the Bank's sense of responsibility and might end in placing the department in much the same relation to the financing agencies as that in which it was involved in the case of the provincial bank, and provisionally they are of opinion that Recommendations 55 and 56 should not be accepted."

Recommendation 55 is about the fixing of limits and 56 about the sanction of loans. Eventually, Government have confirmed the order that the Registrar should neither advise with regard to the fixing of loans nor advise with regard to the sanctioning of loans. With regard to financial affairs, there is no service now which Registrars are required to do.

Ch. Mukhtar Singh: But this is not so in the United Provinces.

Chairman: It is quite different in the United Provinces. Here is the Report of the Co-operative Committee of the United Provinces in 1926. (This has now become ancient history):

> "Owing to the initiative and help given by Government from the outset, the movement has always been identified with Government and is still generally regarded by the people of this province as a Government movement."

Mr. Devadhar: I think you have been to the United Provinces and the Punjab where the movement is differently organized and differently conducted from what is done in provinces like Bombay and Madras. Our practice is as follows: the society, as a rule, is organized by an honorary organizer and generally no initiative is taken by Government in the matter. Their function comes in when we send any definite proposal. Then it is referred to the Assistant Registrar. He examines it and in doing so he

finds out whether there is any genuine desire on the part of the people for a society. A good deal of intelligent propaganda work is done as far as possible by means of lectures, etc., to let the people know what must be done. When I was conducting the debt redemption co-operative societies for sweepers, scavangers, mill hands, etc., in Bombay, Mr. Crosthwaite who was the Registrar of Co-operative Societies in the Central Provinces, was surprised to find that I had formed societies on unlimited liability basis for that class of people and he wanted to know whether they understood what was meant by unlimited liability. When he came to Bombay and went around with me, he put that question to the men and they gave him satisfactory answers. Such societies generally do not leave that part of instructional work unfinished.

Dr. Friederich: The feeling that Government is responsible for co-operative work is in reality there. The Report of the Centrally Administered Areas Committee says on pages 212-213:—

> "The co-operative central banks are undoubtedly able to attract *outside* deposits, but except in Ajmer-Merwara, far too large a proportion of these outside deposits comes from local bodies, officials, institutions and minors, due largely to a widespread feeling that Government is in some way responsible for the safety of the depositors' money."

Chairman: Here this goes further and the way that Mr. McDougall put it is the crux of the thing. It does not mean that anybody can go to a village, collect the villagers and tell them "I have got in my pocket one thousand rupees of Government's money and now if you start a society, you will immediately get one thousand rupees." That possibly cannot be the feeling, because as Ch. Mukhtar Singh pointed out in regard to the United Provinces before that can be formed, the financing authority which is not Government, but a district or central bank, has got to approve of it financially as it will probably have to make the first loan on which the primary society can start its operations and even the district bank is not the final authority. The application then goes to the Registrar and he may, in spite of the acceptance of that particular institution by the district bank, turn down the proposal. Therefore, when it was said that this was understood to be the position in the United Provinces it was very difficult for me to take it as it stood. The Inspector or organizer cannot go there with the thousand rupees in his pocket.

Ch. Mukhtar Singh: He has no money.

Chairman: He can collect the people and tell them 'if you sign this application and if you produce your *haisyat*, I shall send up the application to the district bank, and if they are satisfied, perhaps, you may have a co-operative society here." That is the process. Therefore, the human element in the Inspector, etc., does not count for a good deal. The Inspector knows that he cannot start the primary society, however human he may be and whatever *kudos* he may want to gain, until he persuades the district bank in the first instance and ultimately the Registrar to agree to the establishment of that society. That is really Mr. Ramdas Pantulu's point.

Mr. Lamond: The latest report of the Registrar of Co-operative Societies, Madras, contains this statement:—

> "In accordance with the orders of the Government, the Deputy Registrars were instructed to devote their attention to rectification or liquidation of existing bad societies rather than to the formation of new societies. The result was that although 1,338 applications for registration of societies were received only 534 were complied with."

That shows that Government is behind the movement.

Chairman: I am sure on that point that every villager understands it.

Ch. Mukhtar Singh: In the United Provinces the District Officer is the Chairman of the Central Banks.

Mr. McDougall: I think we are really splitting hairs. What I said was "If they could go to a village and inform the people that they had money at their command to give away in credits if a society was formed, etc." That does not mean it is money in their pockets. They can go to a village and say "If you can see your way to get sufficient members to combine to form a co-operative credit society, I can get you the funds." They have not to say that the papers have to be laid before the bank, and even if they do so, that does not alter the principle involved. They can go to the bank and say 'I have a village here with 30 members who are going to form themselves into a society, can I get the money?" The very fact that these people go there, not necessarily as Government representatives, but with the stamp of Government behind them, in itself affects the attitude of the people. The money is not there. There is the offer, and in the event of their forming themselves into a society, there is very great likelihood of the money being secured. That is the impression we gained. You can make a slight alteration in the wording, but I have not the slightest hesitation in saying that that is the impression we gained in some parts of the country.

Mr. Ramdas Pantulu: What Mr. Lamond says is different. With regard to registration, he says there is the statutory order of the Registrar about the formation of new societies.

Mr. Lamond: The feeling is that Government are behind the movement.

Mr. Ramdas Pantulu: It is not the feeling, Government *are* behind the movement. The Registrar gives the advice; he is the friend, philosopher and guide of the people. Nobody is under delusion with regard to money.

Chairman: If you read the whole paragraph, you will see what impression it leaves in your mind. There is the district bank or central bank which is the permanent financing authority and it must be satisfied before it would agree to the formation of a primary society. Therefore, it is not a question of the Inspector or anybody else, unless it is admitted that the primary financing authorities do their business badly; and if they do their business badly, the Central Co-operative Council will not in any way help the situation. It is the relation of the paragraph with reference to the whole scheme that is the subject of criticism.

Mr. Ramdas Pantulu: If you ask the Registrars in how many cases central banks really ask him for registration, you will find that very few do so.

Mr. Lamond: The report of the Registrar of Madras says this:—

> "The central banks apparently rely on unlimited liability to safeguard their interest, but too much reliance on this and too little regard for business principles will jeopardise the interests of the bank."

Ch. Mukhtar Singh: There is too much officialism so far as the United Provinces is concerned.

Mr. Ramdas Pantulu: I am afraid we are rather straying away from the point.

Chairman: As it stands, this gives the impression that greater official interference is contemplated. The whole scheme is that there is a certain amount of official interference in the provinces. Mr. McDougall wants to add to it official interference at the top, so that he is certainly not supporting Ch. Mukhtar Singh's point of view that it is because of this official interference in the United Provinces where it is said to be greater, that the movement there has not developed to the same extent as it has in other provinces.

Mr. Ramdas Pantulu: I would tell Mr. Lamond for his information that central and provincial banks are supporting the Registrars in their policy of refusing to register. The central banks themselves ask the Registrar not to register because they find their position somewhat precarious.

Chairman: The essence of it is that, whatever safeguards there are, they are inadequate.

Mr. Ramdas Pantulu: You say:—

> "The co-operative movement is of such importance that it is necessary to have what might be called a General staff to co-ordinate the whole throughout the whole of India."

What kind of staff do you contemplate?

Mr. McDougall: I am contemplating the staff to be trained by the Council with which we are largely in agreement.

Mr. Ramdas Pantulu: If it is staff to be empolyed in the various organizations or departments in the provinces, I can understand, but you refer to staff "to co-ordinate the whole throughout the whole of India."

Mr. McDougall: I also include in the general staff the representatives of the provinces who will be on the Central Council.

Mr. Ramdas Pantulu: I wonder whether you are thinking of a Director-General of Co-operation to co-ordinate the activities of the various Registrars.

Mr. McDougall: That depends on the amount of executive authority which you give to the Central Council.

Mr. Ramdas Pantulu: You are not contemplating any All-India Co-operative Service?

Mr. McDougall: Not in that sense. I wish to retain the autonomy of the provinces as far as possible.

Mr. Ramdas Pantulu: I ask these questions because the last sentence of your paragraph conveys a very distinct idea to my mind that you do want an all-India staff. You say "The army of co-operators in India can no more afford to have a weak division than can an army in the field." This shows that you want a regimental system by which the provincial regiments of co-operators should be put under a central Commander-in-Chief.

Mr. McDougall: After all the co-operative movement in India is an army and there are provincial regiments. It is certainly advisable that the provinces should have as much control over their area as possible consistent with the operations of the Central Co-ordinating Council.

Mr. Ramdas Pantulu: Can you give us some idea of the authority that you are really contemplating?

Chairman: I shall pursue the matter a little further. We have been told that in the United Provinces the provincial regiment is weak, and as it is weak the operations in that province are less successful than the operations in some of the other provinces. Is it your idea that the central Commander-in-Chief should tell this provincial regiment to go faster irrespective of what the attitude of the provincial Government may be on the subject?

Mr. McDougall: My intention is that the Central Council should know what is going on in that province and in the other provinces and be in a position to tell that province what is wrong with it. Whether they are going to say that it is advisable to look into things and improve the position or whether they are going to say that the position must be altered and certain definite steps taken will depend entirely on the constitution of the Committee which will be set up to consider what the duties of the Central Council will be. I have no hesitation in saying that these two things can only be defined clearly after the most careful investigation and research. I know very well what the snags are and how difficult it would be to arrive at a proper understanding.

Mr. Ramdas Pantulu: The illustrations you give are not conclusive to my mind about the soundness of your proposal. For instance, you say "If the banking section is weak in one province, then it reacts on the financial security of the others and on the confidence of the public in the stability of co-operative banking in general." I do not think that the failure of co-operation in Burma or its weakness in the United Provinces or its weakness at one time in the Central Provinces had any effect either in Madras or Bombay at any time so far as I know. I have been connected with the movement for about 15 years and I am fully familiar with the conditions in those provinces. I do not think that an all-India staff can prevent this catastrophe, nor is there any danger of the finances of one province being affected by the financial arrangements being weak in another province. Unless you elucidate your point, it is somewhat difficult to accept the statement.

Mr. McDougall: It is the case in general. If you have a serious bank failure in one part of the country, it will affect the stability of the banks and the confidence of the people generally.

Chairman: It may be so in a small country, but is it a fact in large countries like the United States of America? There have recently been several bank failures in some of the States in U. S. A. Has that affected

the position of banks throughout the United States? Would you go so far as to say that?

Mr. McDougall: I should certainly say that it would have an effect.

Sir Hugh Cocke: Certainly, it has had in India in the past.

Chairman: Take for example the Arbuthnot failure in Madras. It may have been a private business, but it was a big banking institution.

Sir Hugh Cocke: The failure of the People's Bank did certainly cause a sensation.

Chairman: The People's Bank only affected Northern India. It certainly did not affect Bengal. Some people say that the failure of the People's Bank was not a failure at all. If Lala Harkishen Lal had been here, he would have probably gone the other way and said that certain other factors were at the bottom of the reason for that Bank's failure. I do not want to pursue the People's Bank failure.

Sir Hugh Cocke: I know something about it and I can say that it had a definite set-back throughout India.

Chairman: The point is whether it gave a definite set-back to banking activities in the country.

Sir Hugh Cocke: I am not referring to individual bank failures. I refer to the bank failures that occurred in 1913 which gave really a set-back in this country.

Chairman: The point of Mr. Ramdas is that when there is a particular bank failure in one particular province, the position in the other provinces will not be affected and Mr. Ramdas has given his own experience with regard to the working of the co-operative banks in Madras that when the co-operative banks were in troublous times in Burma and Central Provinces, the position did not affect the co-operative banks in other provinces of India.

Mr. McDougall: All that I can is that we differ on this point. My point is that failure in one Province is bound to react on other. Of course, if the Government is behind the movement, then it is a different matter.

Mr. Ramdas Pantulu: Do you think that the provincial Registrars are so ignorant of the general conditions of the other provinces as not to be able to advise the co-operators of that province and discharge the same duties as you are now prescribing to the Central Board? You are aware that the Registrars are perfectly informed of all phases of co-operation through the annual conferences of Registrars when all the Registrars freely exchange their views. I may say that I have the privilege of knowing personally all the Registrars of Co-operative societies in this country and my view is that they are certainly in a position to give very sound advice on co-operative matters in their own provinces.

Mr. McDougall: My own view is, from the impressions that I have gathered, that if the present crisis continued, then the whole movement will be in danger.

Chairman: That crisis of which you are talking of is due to the general depression in the country and Mr. Ramdas' point is how can that crisis be avoided even if we start an All-India Council as suggested by you?

Mr. McDougall: It could not. But my point is that if this Council had been in existence for the past 20 years, it would have been able to build up a very sound banking and auditing organisation and the movement would have been in a position to over-ride any storm successfully.

Mr. Ramdas Pantulu: The other example which you say is where you contemplate the consolidation of holdings. You say that if there were an all-India organisation, the public opinion regarding the consolidation of holdings would have been really consolidated throughout India and there would have been a chance of an enactment being passed by the Central Government. While one would recognise the great importance of your suggestion regarding the consolidation of holdings, it seems to me that the task will be almost hopeless. I am of opinion that an all-India body cannot enter into these matters and these should be largely determined by the local conditions at issue. Probably, if Sir Chunilal Mehta had taken a more advanced district for carrying out his experiments, he would have succeeded in creating a favourable reception. Therefore, to my mind, the solution of this problem cannot be done on an all-India basis. It is more provincial and even local to my mind.

Mr. McDougall: You suggest that the matter should be taken up by one district or a group of districts in a province.

Chairman: It can only be taken up if the public opinion is willing to subscribe to it and that brings out Mr. Ramdas Pantulu's point that the work could be better managed by provincial organisations and by provincial or district propaganda than by a Central Council of the nature you recommend. I have had some experience of an attempt at Central legislation like this, legislation which affects what you may call the social law of the people of this country—and there is the Hindu law and the Mohammadan law and other complications—and what happened in the end to that particular legislation is a matter which is well known to most gentlemen in this room. Now then Mr. Ramdas' point, with which I am in entire agreement, is that this is a matter which should be left entirely to the provincial and local organisations. You can only begin from much smaller units and that work can only be done by local organisations. You cannot all at once create an all-India opinion by legislation at the Centre. Even in an advanced province like Bombay an energetic Minister of the local Government found it impossible to carry through the provincial legislative council a measure like this. These are our recent experiences. Even if there had been a Central Organisation for the past 20 or 30 years, the same would have been the result. That is the position.

Mr. McDougall: It is a matter of opinion. My view is that if the Central Committee, representative of all the provinces, supported a movement for consolidation by press propaganda and in other ways, it would have a most profound effect.

Chairman: You may have this opinion after studying the conditions of this country by going about the country for about three months. But I would like it to go on record that the opinion of we people, who have spent years of our lives in this country and had varied experience in co-operation and other matters, hold a different opinion and it is our considered view that even if the All-India Council had been in existence for the last 50 years it would not have solved this question at all.

Mr. McDougall: Again I say that it is a matter of opinion. I differ from your view.

Mr. Ramdas Pantulu: You say "Many enquiries have been held and a number of co-operative experts from every Province in India have visited Europe and other countries. There is not yet uniformity. The experience gained by such enquiries and visits should not be limited to one Province, but should be made use of by the whole of the co-operative movement througout India". Will you kindly enlighten me on what points unanimity is lacking? Most of the functions of the co-operative organisations are controlled and regulated by one Co-operative Act which lays down practically unanimous principles for the whole of India.

Mr. McDougall: The co-operative movement in the Punjab has made very great efforts to establish co-operative unions in the province.

Mr. Ramdas Pantulu: Except that there is no Provincial Bank in the United Province, the Co-operative Union in that province is working just on the same lines as in other provinces except possibly with regard to the degree of official control but that is due to different circumstances in the provinces. It has been the general policy of Government that where there are enough non-official workers the Government would not interfere as far as possible. In Madras, for example, we got whatever we wanted but in matters like auditing we have requested the Government to continue its hold. In all respects my information is that there is practical unanimity in the working of the movement in all provinces.

Mr. McDougall: In the Punjab, recently, a banking expert has been attached to the co-operative movement, and so far as I am aware no other province in the country has done so.

Mr. Lamond: Was not this discussed in Madras?

Mr. Ramdas Pantulu: Our Registrar has got access to the Imperial Bank of India and I do not think the latter disobliges us. And generally, our Secretaries of co-operative banks are all well qualified men more or less equal in status to the commercial bank managers and are paid very good salaries like Rs. 1,000 to Rs. 1,500 per mensem.

Mr. Devadhar: Is it your idea that such an officer should be appointed in each province?

Mr. McDougall: Yes.

Mr. Ramdas Pantulu: With regard to the two different matters, the creation of an All-India Co-operative Bank and All-India Central Mortgage Corporation, I notice that both Dr. Friederich and yourself are not in favour of the same. In our view these two organisations are the best that should be set up from the point of view of creating central organisations.

Mr. McDougall: We have noticed that the system works very well under the guidance of the expert banker and the central banks have expressed the opinion that the advice and supervision exercised have proved to be very distinctly advantageous.

Chairman: Pursuing that point you think that there must be unanimity in that matter and you do not attach any other consideration, with regard to circumstances in the provinces, *e.g.*, Madras where Mr. Ramdas Pantulu has told us the relations between the Imperial Bank and the co-operative banks have been really cordial and the Secretaries of the co-operative banks are really very efficient men with high qualifications and so on.

Mr. McDougall: The question whether Madras requires a real banking expert is again a matter of opinion. But the latest report of the Registrar of Madras makes me hesitate to accept that idea that advice by an expert banker is not required in Madras and I have also reason to believe that there is also much room for improvement in the matter of auditing and supervision.

Ch. Mukhtar Singh: The point seems to me that the fact that the Punjab has started having a banking expert is not a ground for other provinces to follow suit. Naturally, if the experiment succeeds and if the other provinces think it necessary, then they will have to follow the lead of the Punjab. And, therefore, at least for some time to come there will not be unanimity.

Mr. McDougall: It may be. That is why I say that the Central Council should be established which will watch the experiments made in the different provinces and guide them aright.

Mr. Ramdas Pantulu: I am afraid it may not be a right question to ask, but may I ask what experiments and improvements which you find in the Punjab are lacking in Madras to justify your remarks?

Mr. McDougall: I can only refer you to the Registrars.

Mr. Ramdas Pantulu: The question was definitely raised by the Townsend Committee on Co-operation in Madras. Mr. Townsend was the Financial Commissioner in the Punjab. He had a long correspondence with the Registrar of Co-operative Societies in this respect to find out what improvements have been effected in the Punjab by the banking expert and what achievements have been realised. And ultimately he did not stress the point in the Committee. I quite agree that the co-operative movement has progressed much more than in other provinces in this country. But I do not think that co-operative banking is in any way stronger than it is in Madras and Bombay. This will be fully borne out by a reference to the balance-sheets.

Mr. McDougall: It was naturally quite impossible for us to examine details.

Mr. Ramdas Pantulu: Therefore, you have no material other than this to base your remarks that there is no unanimity in working?

Dr. Friederich: My view is that much useful work has been done by the financial adviser of the Punjab in guiding the general banking business, the policy with regard to the rates of interest, granting of credits by provincial and central banks and so on. I do not know, however, what detailed work has been done up to now by the financial adviser of the Punjab.

Mr. Ramdas Pantulu: Take the case of the Bombay Provincial Co-operative Bank, for instance. The destinies of this bank are guided by no less personages than Sir Chunilal Mehta, Sir Lalubhai Samaldas and Mr. Vaikunth Mehta. Do you think that any other banking adbiser could render more help or more advice than these gentlemen?

Mr. McDougall: That depends on the financial condition as well.

Chairman: Therefore, the need for unity does not arise.

Mr. McDougall: If co-operation in Bombay has sufficiently able technical advice from these gentlemen, then it can be said that they have experts.

Chairman: The Bombay Provincial Bank has managed to do it because these people have taken an interest in the development of co-operation in that province. Sir Chunilal Mehta, Finance Member, was actually in charge of agriculture and he is a public spirited man who is keenly interested in the development of his province in various directions. He tried his utmost to get the Bombay Legislative Council pass legislation for the consolidation of small holdings but he failed, and, therefore, when he gave up his membership, he went into this bank and is now taking considerable interest in the management. Mr. Pantulu's and my point is precisely this, where is the essential need for uniformity in a matter of this sort? The Punjab may have found a banking expert very useful because local talent was not available. As it is there is a certain amount of feeling on the subject and when you talked of Registrars, etc., I kept quiet, but there is your case for uniformity and I am only pursuing it from that point of view. If in another province the co-operative Indians could provide adequate banking expert knowledge, why should it form some central organisation for the sake of uniformity.

Mr. McDougall: Would it not be a good thing even for Bombay to have a banker on the staff who would take over the responsibilities of seeing that the banking organisation in the whole area was maintained and wherever possible improved, because I assume that even Bombay might be improved.

Chairman: That may be. But you cannot say to what extent improvement has taken place in the Punjab since this expert banker was taken on the staff. You simply say that the Registrar told you it was working very well. In Bombay we have not heard the Registrar saying these eminent people are not managing their affairs properly and, therefore, it is purely a question of uniformity. I want to know where comes in the need for uniformity.

Mr. McDougall: I am still of the opinion that even in Bombay it would be a source of great advantage to have a banker there. Then he can be depended on to take charge of the banking side of the business. He will be there to work out new schemes, new reforms and new safeguards.

Chairman: Very well, we need not pursue this matter further.

Mr. Ramdas Pantulu: With regard to your last sentence on page 8: "Even from the point of view of the desirability of establishing a unifying social force throughout India....." Will you kindly explain that?

Mr. McDougall: You have a country here of three hundred millions people, approximately, dependent on agriculture. The ryot or the cultivator as a whole is a man who finds it very difficult to take part in public life or to get his opinion with regard to all matters pertaining to his welfare made effective. There is no unifying force in his life. I consider that through this central council a great work of that kind would be possible.

Mr. Ramdas Pantulu: Was any work of that kind done by the Provincial co-operative movement?

Mr. McDougall: Yes.

Mr. Ramdas Pantulu: You think it is not sufficient?

Mr. McDougall: No. That is provincial. You should not stop at the Provinces.

Mr. Ramdas Pantulu: Unifying social force?

Dr. Friederich: I shink unifying would be necessary especially with regard to supervision and audit. In my paper I made the proposal of starting district unions and provincial unions. I can tell you from experience, not only of my country, but of other countries for nearly all over Europe and even countries outside Europe, that with these unions combining supervision, audit and training the best results have been achieved everywhere. You already have a number of supervising unions but my proposal is to form these unions all over India and to expand the work. I am for individual work and I hope my proposal will be studied very thoroughly. I proposed district unions because I know that co-operative work is to a very large extent individual work. If you have small districts, a union may be formed for two districts. But these district unions must be co-ordinated within the whole province and, therefore, an apex union, a provincial union. I gave these apex unions not only advisory powers—I proposed advisory boards for both district unions and provincial unions,—but the provincial union with a Registrar in charge shall have with regard to district unions even controlling power. The central co-operative council, however, should have only advisory power.

Chairman: That we fully understand. But we are now on a specific point. That is, Mr. Ramdas wanted to know how will the establishment of this All-India Council lead to the realisation of the desirable state of affairs to which Mr. McDougall refers, namely, the establishment of a unifying social force? You are talking of audit unions and supervision unions, but he is referring to the establishment of a unifying social force.

Dr. Friederich: I think it is not necessary that I give my opinion once more. It is a dissention on principle. Of course, if you have advisory boards, you cannot much unify.

Chairman: We understand your point of difference with Mr. McDougall very well. Mr. Ramdas is trying to find out as to how this All-India Council—it may be advisory or it may be controlling—is likely to establish a unifying social force throughout India.

Dr. Friederich: In case of an advisory board it is impossible to unify.

Chairman: That we understand. But Mr. Ramdas wants to know what he meant by that.

Mr. McDougall: In countries where education is more advanced than it is here the cultivators have formed themselves into what they call Farmers' Unions. In England these Farmers' Unions have been established entirely apart from the co-operative movement. Now in India I think the co-operative movement is of such importance that it is necessary to keep the movement at the head of all agricultural combinations and I should like this council ultimately to develop a spirit of close union and combination amongst all the cultivators throughout India. In England in our Farmers' Union we have County Farmers' Unions and these Unions are represented by a central executive that sits in London on which are representatives from each of the Counties. They are in this way in direct touch with farmers. Whenever any questions of importance arise, they are referred back to the County Unions where they are discussed and ultimately you get the combined, thought of all-England on the various problems which arise. Now the co-operative movement, in my opinion, is the only possible movement that can co-ordinate the interests of all cultivators in India. If you ultimately have a sufficiently developed co-operative movement, you will have not only your central council but will probably

split up into sections, on which will be represented, say, fruit growers, cotton growers and many others. They will be able to meet under the roof of the central council and will be able to express themselves there. They will get in direct touch with legislature, and with the Council of Research for instance. They will be able to make known their grievances and offer opinions as to how they can be remedied.

Mr. Ramdas Pantulu: I understand you to say that an All-India Co-operative Council will give opportunities to the agricultural population of this country to come together and discuss their common needs and any difficulties—that a sort of co-operative brotherhood will be established?

Mr. McDougall: That is so.

Mr. Ramdas Pantulu: Then we come to Mortgage Banks—page 9 of your notes. I will leave the first paragraph to the end because you speak of the defaulters in the Punjab co-operative banks and we will deal with them a little later on. Your second paragraph raises a very important question. I do not propose to discuss the general desirability or otherwise of these Land Alienation Acts. It is largely a question of policy and my personal view is that it ought to be left to the local legislatures. But with regard to one matter—you want an alteration in the Punjab Act so as to permit co-operative land mortgage banks to purchase and sell their debentures. You want that because these co-operative land mortgage banks are really associations of the agriculturists and agriculturists combined in a company should be able to purchase agricultural land and unless banks have that power the debentures of the co-operative banks will not be sound securities in the market. But that is a question which affects only one province, namely, the Punjab. So you are content with that particular reform?

Mr. McDougall: Yes.

Dr. Hyder: The position is this, we do not wish to discuss these Alienation Acts but the Act does not apply only to the Punjab. A similar Act exists more or less for the whole of India in different forms. For instances, take the provinces one by one—it is applicable to the Frontier, the Punjab, it is in operation in the U. P. and there is the Encumbered Estates Act in Sind. It is in operation in portions of Bombay, specially in the Bhils tract. Then you come to Bihar and Orissa, Chota Nagpur.

Mr. Devadhar: There is the Deccan Agricultural Relief Act.

Mr. Ramdas Pantulu: It is true that to some small extent except in the Punjab and Chota Nagpur and Bundelkhand with regard to the major provinces like Bengal, Bihar and Orissa, Central Provinces, Bombay, Madras. I will say for practical purposes they do not exist. Of course, your suggestion can be extended to those areas which Dr. Hyder has mentioned and if there are land mortgage banks there, I suppose you will say that co-operative land mortgage banks ought to permit the purchase and sale of land. I am quite in agreement with that. If that is your suggestion, I have nothing more to say.

Dr. Hyder: I should like to be quite clear as regards this additional power which you propose giving to these land mortgage banks in these various provinces. Suppose the land mortgage bank acquires this right to purchase and sell or to hold. Let us look at the practical side as well as the object for which these banks are established. In so far as land comes under

their charge I submit to you that they defeat their own object because land mortgage banks have been established to all eviate human miseries.

Mr. McDougall: That is so.

Dr. Hyder: In so far as people are weak and get the money and are unable to pay it back and their loans are required by the mortgage bank, the failure is written on the portals of the co-operative mortgage bank because it defeats the object for which it has been established.

Mr. McDougall: But unfortunately we cannot help that.

Dr. Hyder: We come to the practical side of the matter and that is to whom should it sell? Should it sell only to agriculturists or to anybody?

Mr. McDougall: No. I refer to that later on. The right to sell to anybody should not be allowed. It would only be to *bona fide* agriculturists.

Mr. Devadhar: Except with the permission of the Collector land could not be sold to non-agriculturists.

Mr. Ramdas Pantulu: With regard to the co-operative society, it is not defined as agriculturistic. Therefore, land cannot be sold to the co-operative society.

Mr. Devadhar: I am talking of the Land Alienation Act. He is proposing some modification so that co-operative land mortgage banks may be entitled to take possession of them as owners.

Mr. Ramdas Pantulu: I was in agreement about that. With regard to Dr. Hyder's point we quite recognise that the intention is to see that a borrower does not lose his land. It is really to save him from the clutches of the money-lender. But ultimately if a man does default in payment there ought to be some way in which the bank can recover its dues. Therefore, we are providing for the banks having legal remedy. Moreover, the land mortgage bank is the convention of the debtors themselves, therefore, it is not likely to act against their own interests.

Mr. McDougall: With regard to whom it should be sold, I will leave it to local conditions. I will leave it to the local legislature and public opinion to decide whether the land should be sold only to agriculturists or other people. If the debentures are purchased by the public, they must have confidence that ultimately when the property is sold it will fetch a good price. If the Punjab think it should be sold only to agriculturists by all means let them do so.

Dr. Hyder: This applies only to selling. Mortgage can be given to anybody for 20 years.

Mr. Ramdas Pantulu: Yes, only to sell. There are two other points on which I want your opinion. With regard to the land mortgage banks in India there is no other legislation except our Transfer of Property Act, which more or less is the legislation which applies to all mortgages whether by banks or by co-operative societies or by individuals. You must get a decree from the court in default of payment. It has been suggested by some provincial committees that these banks should be entrusted with the power to sell outside the court, as an English mortgagee has the right to sell. They should not be driven to a court to obtain a final decree. There would be very great difficulty in realising this money. Would you advocate that?

Mr. McDougall: Yes, I think so.

Mr. Ramdas Pantulu: There is one other point, namely, with regard to the insolvency law of this country. If a man borrows and afterwards mortgages his property a co-operative land mortgage bank has hardly any means of knowing what unsecured debts are created by the borrower. The Royal Commission refers to it. The rural insolvency law must be simplified and the mortgage banks must be given protection from the ordinary insolvency law. You will agree?

Mr. McDougall: Yes.

12th March 1931.

Mr. Ramdas Pantulu: We were on the Land Mortgage Banks yesterday. You mention (on page 11) the purposes for which money may be advanced by land mortgage banks. I think they are generally in accordance with the recommendations of the Royal Commission on Agriculture and the Registrars' Conference. With regard to item (2) on that page—the period of the loan—of course the loan will be given for the period the borrower wants subject to a maximum of 20 years. May I suggest that the period should be fixed with due regard to the repaying capacity of the borrower? You say that in the Punjab one-third of the borrowers are defaulters. I have examined the working of the Punjab Land mortgage-banks very carefully, and I think that this is due to the fact that they have restricted the maximum period to ten years. Looking at the repaying capacity of men having 10 or 8 acres who borrow large sums of money ten years will be hardly sufficient.

Mr. McDougall: In my own country it would be utterly useless.

Mr. Ramdas Pantulu: Your Mortgage Credits Corporation gives loans for 60 years.

Mr. McDougall: I have a good deal of personal experience, and in the great majority of cases which have come under my personal observation the period is 60 years.

Mr. Ramdas Pantulu: I agree with your recommendation that the maximum should be 20 to 25 years. You will, I think, agree if I lay stress upon the fact that the period should be fixed with due regard to the repaying capacity of the borrower and with a view to permit the man to repay the debt out of his agricultural income in a certain number of years. That is the most important criterion. There is no use in advancing money to a man who although he may say he will return it in five years cannot do so, because he will be a defaulter.

Mr. McDougall: I quite agree. On this subject I would ask you to consider the advisability of fixing the period definitely, as I say, in stated periods of 5, 10, 15, instead of giving loans, to one repayable after 3 years, and to another after 5 years.

Chairman: You would like that it would be dependent not only on the purpose, but also on the capacity of the borrower to repay.

Mr. McDougall: Yes.

Chairman: You would prefer that the maximum period should for the present be 20 years: it may be extended to 30 later on.

Mr. McDougall: I should very strongly urge that that point should be most carefully considered. I know in England 20 years will be utterly impossible.

Chairman: Therefore you do not lay stress upon the point that the maximum should be 20 years.

Mr. McDougall: Yes, at the very commencement.

Mr. Ramdas Pantulu: The difficulty of a short period is that a large instalment becomes necessary. In Madras we charge interest at 9 per cent.—now it is 8 per cent. If the loan is for 16½ years at 9 per cent. it will work out for repayment of the principal and interest in this period to an annual instalment of 12 per cent. of the money borrowed. It is a very heavy amount to repay, one-eighth of the amount borrowed. We are sticking to 20 years according to the advice of our Registrar, but you will have no objection if in course of time action is taken to extend the period if necessary.

Mr. McDougall: None whatever, on the contrary I recommend it very strongly.

Mr. Ramdas Pantulu: With regard to capital, why do you say that the share capital should be provided by Government with a paid up issue of 10 per cent. of the amount which may be required to establish the corporation. Of course State aid we all welcome to the extent that it is necessary. To my knowledge, neither the Punjab, nor Madras, nor Bombay find it necessary to ask Government to invest any money in the primary land mortgage banks. We are able to put up the share capital. I will tell you why it is not necessary to ask Government. If the proportion is one-fifth, the borrower brings Rs. 100 towards capital and asks for a loan of Rs. 500. That share capital is always there. He cannot get a loan unless he invests in the share capital the required amount. The contribution to the capital of central and provincial banks is kept at the same ratio. The share capital thus automatically comes from borrowers.

In addition to that, for the running of the bank and for other purposes we collect shares from individuals who are not borrowers. From these sources we find ample share capital has been derived, and in fact in Madras we had to stop issuing any more shares because the whole share capital was subscribed in the course of a month or so. Mr. Ramachandra Rao, our President, has issued instructions that no more share capital will be received. Therefore our experience is that it is wholly unnecessary to go to Government for this help. We are creating far too many State banks, and I should like to spare one more if it is possible.

Chairman: What do you do in Bombay?

Mr. Devadhar: We ask for subscription of debentures.

Chairman: You take no share capital from the provincial Government.

Mr. Devadhar: No. There was a proposal that central banks may float debentures, but the advice given was that they can be better subscribed by people if they were issued in the name of a central institution and Government also subscribed.

Chairman: No share capital was subscribed by Government. Therefore, as I understand it, the position is this: that no portion of the share capital of mortgage banks that have been already started in India has been provided by provincial Governments.

Mr. McDougall: That is so.

Chairman: Here you say that the share capital should be provided by Government: which means what has been done is not wholly correct, and that when other land mortgage banks are started in future, the share capital should be provided by provincial Governments. Is that your idea?

Mr. McDougall: Yes.

Chairman: Why do you not want the share capital to be subscribed by the public or by co-operators?

Mr. McDougall: I discussed this very carefully with my banking colleagues. I thought it was as well to consult expert bankers on the matter. I myself was not at all certain as to whatever Government assistance should be in the form of debentures or share capital. My colleagues are very strongly of the opinion that in the event of Government giving support to these banks which in our opinion is required in one form or another, it might be better for Government to take up share capital rather than debentures.

Chairman: Dr. Trip will be here this afternoon. We will ask him why he advocates this?

Dr. Friederich: We have different kinds of mortgage banks. There is one class called Landschaften which have no share capital of their own, but are under special public control; then we have mortgage banks called Hypothekenbanken which as in the case of joint stock banks are provided by shareholders and not by Government.

Chairman: They are really joint stock concerns.

Dr. Friederich: Some of these mortgage banks as joint stock banks have a special guarantee with regard to the rate of interest on their debentures: that is the only assistance given by Government. Then there are institutions which give long term mortgages, the capital of which is more or less provided by municipalities but not by the State. The chief reason why we recommend that a part of the share capital should be provided by Government is this. We must consider that the members of these co-operative mortgage banks are debtors and are not in a good financial position, and if they have to take up the share capital it will be a heavy burden to them. These mortgage banks have to issue debentures and for debentures security must be there and then, and that security will be provided by the share capital and the reserves. It would really be a burden to mortgagers to supply the share capital.

Chairman: (To Dr. Hyder) I think that the arrangement now in force in India had the blessing of the Royal Agricultural Commission.

Dr. Hyder: Yes. Our recommendations are:

The resolution passed by the Conference of Registrars of 1926 in favour of the establishment of land mortgage banks is endorsed.

Land mortgage banks should be established under the provisions of the Co-operative Acts.

The guarantee of interest on the debentures of land mortgage banks is the most suitable form in which assistance to these banks can be given by Government.

Government assistance to land mortgage banks in the form of subscription to their debentures is not recommended.

Mr. Ramdas Pantulu: Co-operators all over India think that really no share capital is necessary at all for these land mortgage banks for the reason that debenture holders are secured by the mortgages executed by the borrowers. That is the position here. We lend somewhere between 33 and 40 per cent. of the market value of the assets although the bye laws allow up to 50 per cent. Under the English Act you can go up to 66 per cent. We are, therefore, very conservative in the proportion of our loan to the value of the assets. So the debenture holders are fully secured by the actual mortgages which are transferred to a third party, the Registrar, called the trustee. He holds these mortgages and trust deed to see that the land mortgage banks fulfil their obligations to debenture holders. The trust deed gives him power actually to enter upon the management of these banks when there is any laxity in management. Therefore co-operators have been saying that there is no necessity at all to have any share capital on the model of the banks in Germany. But the Baroda Committee and the Registrars Conference thought that share capital may be collected, so that if there is any default in the payment of interest to debenture holders the money will be forthcoming, and that such share capital will give shareholders who are borrowers some interest in the working of the society. They will not be merely borrowers, but borrowers and shareholders. The trend of opinion is that the share capital should be as low as possible, and the idea of a very high share capital being put up is quite foreign to our opinion. If there is any advantage in it we will certainly consider it.

Chairman: I see that the Royal Commission on Agriculture have said that a reasonable share of the share capital should be taken by Government in order to assure the investing public.

Mr. McDougall: We were of the opinion that in the event of Government having to give any support at all it was better to give it by share capital than in any other way.

Chairman: We will pursue that matter with Dr. Trip. Apparently it was based on some American system. The Baroda Committee went into the matter very fully and they did not recommend the adoption of the German system. It was some American arrangement which they recommended and which the Royal Commission, after examining the Indian conditions, blessed. It may be that the German system is different, but we have been told by certain bankers in some other connection that what is good for Germany may not be good for India or what is good for Holland may not be good for India. I was simply trying to find out the basis of this recommendation which is at variance with the arrangements prevailing in India at the present moment and the arrangements blessed by the Royal Commission on Agriculture. We shall ask Dr. Trip about it.

Dr. Friederich: You have not such big estates as we have in Germany; you have small agriculturists and therefore I do not recommend the German system for India.

Chairman: We shall discuss with Dr. Trip the point of this recommendation. If we are to accept the recommendation, it means that every existing land mortgage bank in India will have to be reconstructed on this basis.

Mr. Ramdas Pantulu: The Baroda Land Mortgage Committee, the conclusions of which we have accepted, say that it is a practice in some places to do away with the feature of the share capital altogether and strictly speaking, share capital is not very necessary for a land mortgage bank.

With regard to (*b*): "debentures should be issued in the market without a special guarantee of the Government", all I have to say is that the Royal Commission on Agriculture and the Registrars' Conferences of 1926 and 1928 have recommended the guarantee of interest on debentures as a far better method of State assistance than subscribing either to the share capital or debentures. Your view is directly in conflict with this?

Mr. McDougall: It is.

Chairman: Here again is it Dr. Trip's suggestion?

Mr. McDougall: Not entirely. I have discussed this question with certain bankers and also with land mortgage banks in England and these are strongly of opinion that it is better for Government to know what its commitments really are than guaranteeing interest on debentures.

Chairman: If that is the objection, did you at all discuss with these bankers whether by guaranteeing interest on debentures for a specified period they do or do not enter into unlimited liabilities? The method of guaranteeing interest on debentures according to the Indian system is that interest on debentures is guaranteed for a certain period or up to a maximum limit for debentures raised within a certain period.

Mr. Ramdas Pantulu: In Madras it is 50 lakhs raised for five years.

Chairman: Therefore no question of unlimited liability of Government does arise.

Mr. Ramdas Pantulu: With regard to (*c*) "'the proportion of share capital to the debentures issued should be as 1 to 5", it is a question whether the share capital should be high or low. Under the system we have recommended and which is adopted by Baroda, it is as low as 5 per cent, rising up to 20 per cent.

With regard to (*d*), floating debentures for a longer period than loans, when we formed the Provincial Central Land Mortgage Banks in Madras, we considered the matter at great length, but we found certain practical difficulties in adopting it. For instance if we advance loans for 20 years and if we float debentures for 25 years, there will be this difficulty: if repayments all come in at the end of 20 years as we expect them to do, then the debentures will not fall in for redemption for another five years. So we have got to invest this money for 5 years or to re-loan it. If we re-loan it, it will not be available for another 5 years. If we invest it, we would not get a proper return, because generally debentures carry a higher rate of interest and our short-term investment will not bring in a return to cover the interest. Therefore we have decided to make the period of debenture and the period of loan almost synchronise as far as possible. We cannot always make it so, but as far as possible, our ideal is quite the opposite of what you have recommended.

Mr. McDougall: As a matter of general principle, I have no hesitation in saying that you are perfectly right, and if your local conditions do not require this, I would be quite prepared to leave it altogether. During my speedy and cursory tour through India I had a lot of discussion about

the difficulties owing to the exceptional conditions prevalent in India, such as long periods of drought, etc., which make it well nigh impossible for mortgage banks to be carried on on the same strict lines as they are carried on in England. If the conditions are such that they do not require this, so far as land mortgage banks are concerned, I have no objection. The point only arose from a general impression which I gained.

Chairman: The conditions vary in different parts of India. Perhaps in a province like C. P. which probably gets famine more frequently than a province like Madras, that precaution may be necessary, but it may have an undesirable effect in a province like Madras.

Mr. McDougall: If it is not necessary, it may be undesirable.

Chairman: Moreover even in the same province conditions in different tracts differ and therefore a land mortgage bank operating all over the province may only be partially affected with the condition which you have mentioned. You would not stress this point?

Mr. McDougall: No, I do not.

Mr. Ramdas Pantulu: In your next point you refer to district banks. May I know what idea you have got of land mortgage banks when you speak of district banks? There may be a good deal to be said for having one bank for each district, but for the present in Madras and even in the Punjab these are not district banks; these are small banks with a very limited area, the idea being that the borrowers may know each other and the co-operative members can mutually control over the operations, the way in which money is spent may be secured and other co-operative ideals may be enforced through small land mortgage banks. Whether later on we have to form central banks for a group of them just as private societies, or whether we should have a district bank and make these branches is engaging the attention of the Madras co-operators. If you will kindly tell us what exactly you consider to be a better arrangement, we will certainly give our consideration to it.

Mr. McDougall: I think there is a confusion here. I did not realize when I wrote this that in India you had what are called political districts. I think under ordinary conditions a political district is too large. I was thinking more of the districts served by a central bank where the central banks are pretty well established as I saw it in the Punjab. I am not in favour of confining the operations of these mortgage banks to too small an area. If the directors really take an interest in their business, it is quite possible to secure a fairly large area efficiently run. Short-term credit societies and long term mortgage banks are entirely different. You have got your money on mortgage. The man cannot run away with the land and in my opinion it would ultimately lead to better results if really strong banks were established which would cover a fairly large area. What the extent of that area should be I am not prepared to say. I am inclined to think that it would be well worth your while to consider, where the short term credit movement is well established, whether it should not be done in areas covered by central banks. But I really fail to see what real benefit would arise from creating an innumerable number of small district mortgage banks. The difficulties of supervision would be greater and I do not think that the benefits arising from a closer co-operation in smaller area would compensate for the other disadvantages.

Chairman: Your point is that the provincial bank should be a sort of apex bank and it should have branches spread over suitable areas, not necessarily in each district. It may cover more than one district, and in particular localities it may be necessary to have even more than one of these banks for one district.

Mr. McDougall: That is so.

Mr. Ramdas Pantulu: What is the kind of connection which you will establish between the credit societies and the land mortgage banks which you are thinking of?

Mr. McDougall: Here I have recommended that wherever possible the District Bank should be housed in the same office as the Central bank and that the Manager of the Central Bank and the District Bank should be one and the same person. That is a matter which required very serious consideration. The only expert with whom I have discussed is Mr. Darling who was in Delhi last week for a couple of hours. He was against the proposal to start with. He thought that the funds of the two societies might be used wrongly and mixed up and he said he would consider the matter and let me know his observations.

Dr. Friederich: I am opposed to this proposal and personally I am not for this mixture.

Mr. McDougall: I do think it very highly desirable that there should be some link between the Central Bank, if you fix the area, and the Mortgage Bank, to enable the latter to know exactly what the commitments of applicants are and on the other hand, to enable the Central Bank or the credit societies to know their position.

Mr. Ramdas Pantulu: I fully realise that if a member of a co-operative credit society is applying for a loan from a Land Mortgage Bank you should have information as to the commitments of the credit society. In fact every loan application mentions not only his debts to the credit societies, but also to every outsider.

Chairman: Do you get the co-operative part of it checked?

Mr. Ramdas Pantulu: We check it with the village *panchayat* or the Secretariat or Union. The supervisor or Government Inspector or somebody else informs us as to the correctness of the statement, and to that extent we observe your caution. To that extent your advice is perfectly sound and we are already trying to follow it. Do you want that the members of the Land Mortgage Banks should necessarily be members of the co-operative credit societies in that area?

Mr. McDougall: I am afraid I have not considered it.

Dr. Friederich: In my opinion it is not necessary. I do not see any reason for it.

Chairman: But you have no objection?

Dr. Freiderich: No, but then he has unlimited liability with regard to the loan society and limited liability with regard to the mortgage bank.

Mr. McDougall: In any case I do not think it is necessary that a member of a mortgage bank should be a member of a co-operative credit society. He may only require credit for a mortgage loan.

Mr. Ramdas Pantulu: Why I ask you this question is that in the earlier Land Mortgage Banks in the Punjab there is such a condition and even to-day the bye-laws require that he should be a member of a credit society before he can join a land mortgage bank.

Chairman: With regard to your statement that "the proportion of loan to the security will largely depend on the alterations which may be made in the existing laws", is it the proportion of loan to be granted by the Land Mortgage Bank to a borrower or does this refer to the proportion of a loan to be granted by Government? What is the security? You have already said that Government's financial assistance to these banks should be confined to provision of share capital. If that is so, I do not know what the loan means. Is the share capital intended to be a loan by Government? I think this is a new sentence and refers probably to the loan to be granted by the bank itself to a borrower. Are you referring to the loan by the Land Mortgage Bank to the borrower?

Mr. McDougall: Yes, it should be a new paragraph.

Mr. Ramdas Pantulu: You suggest that "the payment of capital and interest should be done on the lines adopted by the English Land Mortgage Corporation". You mean principal and interest?

Mr. McDougall: Yes.

Mr. Ramdas Pantulu: So your recommendation is that it must be a scheme of amortisation by equated payments?

Mr. McDougall: Yes.

Chairman: You would not object if we put a main heading "Conditions on which loans are to be granted by a Land Mortgage Bank to its borrowers" before your sentence "the proportion of loan to the security will largely depend, etc.".

Mr. McDougall: I accept that. It will be a new paragraph.

Mr. Ramdas Pantulu: With regard to the suggestion as to the amortisation of mortgages by equated payments on the English Land Mortgage Corporation basis, there is this difficulty. Looking at the tables given in this book "the Practice and Law of Banking" by Sheldon on the operations of the English Land Mortgage Corporation, I find that the period allowed is so long and the interest charged is so low that your payments work out to very small figures. On page 441 of the book you find that if the period is—

	£	s.	d.	
50 years it is only	2	17	3	per £100 half-year.
40 ,, ,, ,, ...	3	0	11	
30 ,, ,, ,, ...	3	7	11	
20 ,, ,, ,, ...	4	3	9	

and so on. But in India the interest is so heavy and the period suggested so short that the equated payment system will necessarily involve payments of much larger size than under the English Land Mortgage Corporation. Suppose we adopt one of the two other alternative systems, namely, of paying a fixed portion of the principal, one-twentieth, and interest, or reverse the order of payments and say earlier payments to be smaller and later payments larger, so that it will be easier to pay in later years a larger amount than in earlier years. If we make suitable changes according to

the conditions of the province and place where the Land Mortgage Bank is situated so as to know exactly how the payment is to be regulated, have you any objection?

Mr. McDougall: The great advantage is that it makes it so much more simple.

Mr. Ramdas Pantulu: But the payments for all the years will be equal and the difficulty will be, the period being short and the interest high, that it works up to a very large amount.

Mr. McDougall: But in the long run it works out in exactly the same way.

Chairman: But, Mr. Ramdas Pantulu's point, as I understand it, is this: a man takes a loan and improves his land, it will not be possible for him to pay a heavy instalments in the earlier years. If you reduce the instalments in the earlier years and increase them in the later years when he expects the capital obtained by him from the productivity, then that would benefit him. Otherwise, having got a loan from the Land Mortgage Bank, he may have to go to another moneylender in order to pay his annual instalment on equated basis. The capital sunk by him having not reached the stage of productivity, he may be compelled to go to a moneylender and get the money if the system of equated payments is to be absolute. All that Mr. Pantulu wants to know is whether you have any strong objection to the repayments being made, not on an equal basis, but (the object aimed at being the same) in a certain number of years at a certain rate of interest, and to meet the special conditions he would have to be let off with an easier payment, say in the first four or five years, thereafter the payments being gradually increased.

Mr. McDougall: The trouble is that the land can deteriorate as well as improve and then the burden at the end of the period becomes heavier.

Chairman: Therefore on the balance you would advise adherence to the system of equated payments?

Mr. McDougall: Yes.

Mr. Ramdas Pantulu: We are adhering to it, but there have been complaints from borrowers saying that you should not expect them to make a heavy payment in the beginning but to give them easier instalments, increasing them gradually. I am putting it from the point of view of the borrowers, but I may tell you that in Madras we have framed the bye-laws in such a way as to give the liberty in this matter to the bank, but the bank has not adopted the other system.

Mr. McDougall: Another objection to the system suggested is this: It is only human nature for the man to wait, if he gets easier instalments in the beginning, until towards the end of the period conditions may arise that would make it impossible for him to repay the instalments. It is better to make him realise what his commitments really are.

Chairman: But you would not object to the continuance of the discretionary power which is now vested in the management of the Land Mortgage Bank in that matter in the area?

Mr. McDougall: No.

Mr. Devadhar: You are in favour of State-aid being given liberally to the establishment of Land Mortgage Banks. When you advocate share capital by the State, what better State-aid can be had than that. I would say that the money advanced to the cultivators when invested in the shape of sinking wells or other improvements, will take some time to bring a return. Would you therefore be in favour of taking no interest for the first five or ten years?

Mr. McDougall: I do not think so.

Mr. Devadhar: Would not that be a more effective form of State-aid?

Mr. McDougall: It is better to make every institution self-supporting.

Mr. Devadhar: We are talking in the language of relative terms. If you agree that the money invested will take some time to mature and come in the shape of a return and the period will be something like 5 or 10 years, instead of having equated payments I would have more payment of interest for the first ten years and then charge interest side by side with a portion of the principal, so that the man's burden may be lessened.

Mr. McDougall: Government will have to pay for the loss; that is a form of Government assistance and Government subsidy.

Mr. Devadhar: I think there are certain banks in Germany through which Government advances some money even without interest for some period.

Dr. Friederich: Yes, for special kind of Mortgage Banks for supporting the small industry.

Mr. Devadhar: My point is that so long as the principle is there why it should not be made applicable in other cases.

Mr. McDougall: I could not advocate such help for work done by mortgage corporations.

Mr. Devadhar: In Germany Government even subscribe to the share capital and do not charge any interest for it.

Mr. McDougall: I can quite understand Government coming to assistance in the case of a new national industry but agriculture is not a new industry.

Chairman: Apart from that if the Government is really satisfied under special conditions some peasant wants some relief at the expense of the State it can relieve or even suspend the land revenue. It will be a more direct form of assistance instead of trying to interfere through the operations of the mortgage banks. It seems to me that a simpler arrangement for Government if it is satisfied that it is a case for relief is to grant relief in other ways.

Mr. Devadhar: In order to get takavi from Government which is dependent on the failure of rain, we do not want this man to pray to God not to send rain!

Chairman: I thought you were referring only to special conditions of crop failure or other things.

Mr. Devadhar: My idea was that the functions of land mortgage banks included granting of loans for the improvement of land and not the repayment of old debts alone.

Chairman: Government now grants loans under the Land Improvement Loans Act. Is it done free of interest?

Mr. Devadhar: That is takavi.

Chairman: Agricultural loans are takavi, but loans under the Land Improvements Act are different, I think.

Ch. Mukhtar Singh: The word takavi is used in regard to loans under both the Acts. My point is will there be any objection for the instalments to begin after 2 or 3 years in the case of such loans?

Mr. McDougall: What improvements are you thinking of?

Ch. Mukhtar Singh: Supposing a loan is taken for sinking a tube well. It may take even 2 or 3 years for its completion. All depends on the strata that has to be reached. You may have to go down even to about 300 feet to reach water. My point is that it will not be possible for a man who takes such a loan to repay anything during the first 2 or 3 years until he is able to earn something or make use of the well.

Mr. McDougall: I quite agree. It is a case which requires careful thought and attention.

Ch. Mukhtar Singh: Where is the difficulty for the Land Mortgage Bank to do it?

Chairman: The difficulty is in the meanwhile the land mortgage bank will have to pay interest on its debentures capital and so on.

Ch. Mukhtar Singh: I do not for a moment suggest that the interest should be remitted but I only say that the instalments of principal and interest should be made payable only after the improvement for which loan has been taken has come into use.

Mr. Ramdas Pantulu: But in the meantime the debenture and the share capital interest has to be paid for by the mortgage bank and how can it do so if it only lends out without getting anything in return by way of at least interest?

Ch. Mukhtar Singh: The capital can be utilised.

Mr. Ramdas Pantulu: That will be hardly sufficient. I quite see your point Mr. Mukhtar Singh. This was considered by the organisers of the land mortgage banks both in Bombay and Madras and they found out that unless there was a very large amount of share capital and Government also contributed for the same the proceeds from which can be utilised for paying off interest half yearly to the debenture holders, there was no way by which a land mortgage bank could suspend the payment of instalments from its borrowers. And moreover, the land mortgage bank can only lend, it cannot exercise any sort of control from its borrowers to see that the amount is used up properly for the purpose which it was asked for.

Mr. McDougall: From the point of view of the mortgage bank I fail to see how it is possible to adopt Mr. Mukhtar Singh's suggestion. I have, however, the most sincere sympathy for the suggestion and consider that it is one which should receive the most serious thought. The sinking of a well, particularly, would mean that it would be quite unserviceable and unproductive until water is found.

Chairman: This is, I think, a matter which we cannot enforce on the co-operative banks. If your proposition were that this borrower will go on paying interest from the beignning but that the repayment of capital should not begin until the improvement has been effected, then it is an understandable proposition. You can then draw up tables of payment by making the interest alone payable in the first two years and thereafter the equated payments to include both interest and capital, then it is not a practical impossibility. But then there is the other difficulty which has been raised by Mr. Ramdas Pantulu with regard to the payments of interest on debentures half-yearly. So then if at all it is to be done it will have to be done by raising the interest charge on the borrowers. That being so I am not sure whether the agriculturist will be able to pay anything at all.

Ch. Mukhtar Singh: That may be your view, but I am speaking from the practical point of view. The fact is that the agriculturist cannot pay anything until he is able to benefit from the improvement effected.

Mr. McDougall: Are you assuming that the land is entirely unproductive?

Ch. Mukhtar Singh: My point is this: to sink an ordinary well it will cost about Rs. 1,500 and for a tube well it will cost at least Rs. 6,000. For an ordinary agriculturist, it is absolutely impossible to pay anything until the well has become useful.

Sir Abdul Quaiyum: I have got a little experience in this. The difficulty arises when the thing fails. The members of co-operative societies belong to most backward classes of society. They really do not understand that they have to enter into a banking arrangement. They are not very serious in understanding details. Sometimes they do not even understand whether they will have to repay the same or whether it is a present given to them. That being so if the interest were to be added to the principal and allowed to accumulate for the first 2 years or so they will not be able to repay the loan. And then as to the difficulty thought of that the mortgage bank will find it difficult to pay interest to its debenture holders I might say that fear can be removed after 2 or 3 years after the bank has come into existence, but in the beginning you should no doubt have ample provision for meeting such needs.

Chairman: I certainly anticipated your solution but in that case the bank will have to maintain a certain amount of reserve capital for this purpose for which it will not be able to earn any interest but the money will simply be revolving round the parties. Therefore in order to realise the interest on such reserve capital it will naturally have to raise interest rates on its loans. In effect it will come to that.

Mr. McDougall: Is it a frequent occurrence that after the sinking of a well water is not secured?

Dr. Hyder: If you try to sink a well near the Himalayas you may sometimes get at water even within 5 feet, but further down the Jumna you cannot get at water even for several feet.

Mr. McDougall: It is not strictly a banking proposition. I should think that it is a Government proposition.

Chairman: That is what I said at the outset that Government might come to the assistance of these poor peasants if they found the need for it. Nothing stops the State from doing so.

Ch. Mukhtar Singh: I am afraid it will take away the liability of the Government. There has already been a suggestion in one of the Provincial Committees that even the takavi loans for the improvement of lands may be distributed through mortgage banks when they come into being. If that be so I am afraid all these land mortgage banks will be much worse off.

Chairman: I am not so sure of that, because money needed will be voted for by the provincial councils. So I hope people will display the same amount of interest in the welfare of the peasant as they have done in the 10 years of the existing constitution in the past.

Ch. Mukhtar Singh: However, this is a bigger question. Another matter which I would like to suggest is whether there will be any harm if the Government grants a decent amount of money free of interest to the mortgage banks for improvement of land to be distributed through that agency and the interest for the first 2 or 3 years on loans may not be charged at all by the mortgage banks because the money is already there.

Chairman: That arrangement could be made without detracting from the banking aspect of the problem.

Mr. McDougall: I agree.

Lala Harkishen Lal: Banking and insurance principles could really be blended in this case. I would suggest that the payment of instalments should be based on the principle of acturial science rather than equated payments. The main idea is that the peasant instead of being asked to pay interest at a uniform rate is asked to pay interest at the rate of say 3 per cent. and then the rate is gradually increased up to say 6 or $6\frac{1}{4}$ per cent. to be reached within a period of 10 years or so during which time the whole loan is repaid, instalments of principal also increasing with the increase in the rate of interest. By so doing the banking principle will not be offended against. My point is that in addition to banking requirements insurance ought to come in many ways and in insurance the principle is that many contribute to the common good of all in order to attain what we may call statistical success.

Chairman: But I might say that from the theoretical and the practical point of view it is most sound, but my opinion is that it will take several years before we could attain that end. The fundamental difficulty is the lack of education especially among the peasantry.

Lala Harkishen Lal: I do not agree. The insurance has not succeeded because no statistics are available. I myself devised a scheme which because officials will not care to understand what it is all about did not come out. In insurance now we have graduated payments of premiums. Here the principle of education does not come in at all because an actuarial graduated scale has to be placed beforehand. Even now without education the agriculturist knows that he has to pay 6 per cent. If he is assured that he is not to pay anything more than that and that we are facilitating his work of repayment easy by making him pay by graduated instalments. I do not see any reason why the agriculturist should not abide by it. I think my idea if combined with the idea of banking would give him

better relief and more relief than he is receiving at present, and so far as the banks are concerned they would be on safer grounds than they are at present.

Chairman: Now I do not know what statistics you furnish from which you will be able to say that in the case of that loan after two years the crop output would go up by say X, or his income would go up by Y and that it would go up in successive years by another A or B and that after a certain number of years after it has reached the peak it will drop.

Lala Harkishen Lal: The principle involved is this that according to our present method it is the method of helping the agriculturist and at the same time to be on the safe side so far as the loan is concerned. We have two things in view. We have not in view that he should not pay, or that the bank should make more money. The loan should be realised with ease and without trouble to the other man and the other man must pay. Therefore it is not to see what that well will do—it does not depend on the well, it depends on the man himself. Supposing he borrows Rs. 1,000. The first year at 6 per cent. he must pay Rs. 60. Well instead of paying Rs. 60 according to the Nawab Sahib if he pays nothing his troubles increase rather than decrease. According to me his troubles do not increase. He has a little discomfort for the first two or three years, but at the same time he knows the money is not a gift. I want to get the average of that, and that would be that instead of paying 60 he pays 30 and 30 rupees are postponed. The next year he pays 30 and again 30 is postponed. The third year is hypothetical. If the well is really made the department might charge 60 rupees, but if the well is not made postpone it for one year more and charge only 30. Well at the end of three years he has paid Rs. 90 and another Rs. 90 is due from him on account of interest. Now this Rs. 90 ought to be spread over a number of years.

Chairman: I understand that. Mr. McDougall has dealt with that point. If the real point is easing the burden—in the 8th or 9th year he may find that his land is becoming less productive and therefore it does not meet the problem.

Ch. Mukhtar Singh: By putting in a well for the first few years he must get much more.

Chairman: For how many years, that is the point?

Ch. Mukhtar Singh: In the third year he gets much more than he ought to have expected because the water is there. In the fourth year also. For at least 5 years the land must produce more.

Mr. McDougall: I came across one district in the Punjab where within the last few years the whole district has become derelict because of the fall in the level of the water. Assuming this corporation was working in a district like this, we have to consider it. 5 years ago the district was apparently prosperous and successful. Suddenly the water disappears. That is a very serious position.

Ch. Mukhtar Singh: If that is really what happens then naturally the method of sinking wells will have to be discarded.

Sir Abdul Qaiyum: I should like to know whether you are prepared to give the man any concession if his scheme fails. If you are not willing

to show him any favour then in that case the difference in the product of the land does not come in.

Mr. McDougall: That is not banking.

Lala Harkishen Lal: I think we are entering into extraneous matters. My idea is simply that there should be graduated instalments. So far as loans are concerned the Act is already there. Loans are being advanced and the considerations which led to the passing of the Act are the same or ought to be assumed to be the same.

Chairman: I fully realised that and that is the reason why I said it may be a theoretical proposition but from the bank's point of view it has to take into account the points to which Mr. McDougall referred.

Ch. Mukhtar Singh: I do not agree with Mr. McDougall that it is not a banking point.

Mr. Ramdas Pantulu: I am in support of what you say. When I suggested to Mr. McDougall that we have made provision in our bye-laws for the system of graduated interest, that in the earlier years it should be less, Mr. McDougall said he adhered to the view and he would not object to an alternative provision being made in the bye-laws if necessary. I have already told you that our bank has taken the same view and from the point of view of administration it is adhering to graduated payments. But the alternative clause is placed in the bye-laws and you say if local conditions require it in particular places it may be done.

Chairman: Therefore that practically settles Lala Harkishen Lal's point. Then we come to Mr. Mukhtar Singh's point—that for example Government actually gives loans interest free for the first two years and he was apprehensive that with the establishment of the land mortgage banks that concession would disappear. We are actually discussing that and we came to this provisional conclusion that whatever Government wants to do in the interests of the peasant is a Governmental function, not a banking function, and therefore things of that sort must be kept separate. Mr. Mukhtar Singh said, could not the same facilities be given through the bank by the Government placing at the disposal of the bank a certain sum of money free of interest. If the Government did that undoubtedly the bank would do it. It would not become an unsound banking proposition. That is the position.

Sir Abdul Qaiyum: Between the facilities of the banking arrangement and the Government arrangement there is a lot of difference. It is not so easy to get Government loans free of interest for the first two or three years. That means spending a good deal more than the interest he may have got from a bank.

Chairman: It is no use pursuing this point further.

Lala Harkishen Lal: Is it really a fact that the Government at any time gives money free?

Ch. Mukhtar Singh: In U. P. for tube wells Government did make grants.

Chairman: It is hardly necessary to pursue the matter from the banking point of view. Mr. McDougall cannot take any exception to it if Government were to place at the disposal of a central land mortgage bank, or say even the provincial land mortgage bank, 5 lakhs and tell them 'we have given you this money free of interest as a *quid pro quo* you

must not charge any interest for two years for loans falling under a certain category, then if the money given is equivalent from the bank's point of view to the value of that concession the bank cannot object to it as a banking proposition.

Ch. Mukhtar Singh: In the other case for the mortgage banks also I feel it is a banking proposition in this way that we have to look to the interest of the person and if we find that the person who borrows will be unable to pay that money we should find out whether we can give him some concession or not.

Chairman: That in special cases is already provided for in banks bye-laws. It can only then be the graduated payment to which Lala Harkishen Lal referred and graduated payments as Mr. Ramdas Pantulu pointed out are already provided for in the bye-laws of banks in special cases, not as an ordinary arrangement.

Mr. Ramdas Pantulu: The banks are not doing it now.

Lala Harkishen Lal: That ought to be universalised.

Chairman: At the present moment we have only two or three of these land mortgage banks and the demands for the repayment of old debt is such that that is the first part of the problem to tackle.

Mr. Ramdas Pantulu: On page 13 you say that the provincial mortgage corporation should have the Registrar as Chairman. I have three very different reasons why I personally do not favour this recommendation. I will state them categorically for you to consider.. At present the Registrars occupy important functions by arrangement in all the other provinces where land mortgage banks are not now existing. Registrars have powers as trustee and general statutory powers of control. These two functions are so potent that he can certainly prevent any mismanagement of these co-operative banks. It is not necessary to actually make him the administrative head of these banks. The second is as the Calvert Committee in Burma has said as far as possible the official advice in financial matters should be reduced to a minimum and almost eliminated. If the Chief Administrative officer of a bank is to be a Government official people are more likely to think it is his money than otherwise. The third reason that I have in mind is that we are approximating in the advanced provinces to the ideal of officialism at the moment which does not mean the removal of the control of the Registrars but subject to the statutory functions of registration, liquidation and audit, the non-official organisations are entirely on the initiative and enterprise of non-officials. If a Registrar is Chairman I think the sense of responsibility of the directorate of the non-official workers who manage this bank will be greatly weakened and therefore it will not be the least important in the existing arrangements to put these official departmental heads as Chairmen of these banks. These considerations that the powers of Registrar as trustee and as statutory friend, philosopher and guide, of the movement, are legal powers make it wholly unnecessary to put these Registrars as Chairmen.

Mr. McDougall: I suggested the Registrars as Chairman in view of the fact that the Government are holding the share capital of the bank. If the Registrar is to be a Director of the Bank and at the same time trustee of the bank then the interests of Government are certainly fully safeguarded. If you can get a better man to act as Director I have not the slightest objection.

Chairman: As a matter of fact there may be other objections to having him as the chief man. Experience in other provinces has revealed the dangers of having Registrars mixed up with the active headship of one of these institutions. The Registrar is in general control, that is the point, and if he then retains the active headship of an institution his two functions are bound to be mixed up and in one province, at any rate, the Local Government's view is that that has led to trouble.

Mr. McDougall: Mr. Ramdas Pantulu has put forward a strong case with regard to the disadvantages of the Registrar as Chairman. All I want is a really capable Chairman.

Mr. Ramdas Pantulu: The last sentence on page 13: "We would recommend that the bye-laws of the Mortgage Banks already in existence in the Punjab should be used as the basis for the rules and bye-laws of the District Banks". Here your idea of uniformity is once more put forward in a different manner. We have very carefully considered the bye-laws of the Madras Bank and we have very widely departed from them.

Chairman: Mr. McDougall wants them to be adopted for the District Banks, not provincial banks.

Mr. Ramdas Pantulu: Our provincial bank came into existence only a few months ago. When we formed our land mortgage bank 4 or 5 years ago we very distinctly departed from them. If you will kindly turn to page 14, para. 3, you will find the position of the borrower's rights mentioned very briefly: 45 per cent. of the cultivated area of the province is tilled by the proprietors themselves. Therefore you find only 53 per cent. of the tenants are really persons having a right of alienation in their holdings and the other people have no right in their holdings. If you turn to page 15, line 3, where you say 'no advance will be made to a mortgage bank if the maximum loan allowed under its rules exceeds Rs. 5,000 or 20 times the land revenue of the land mortgaged, whichever is less'. In Madras the position is this that our proprietary tenants under our Tenancy Act, as well as the ryotwari tenants of the Government have absolute right of any nation. There are really no restraints except in the Agency tracts or backward tracts. Therefore nearly 75 or 80 per cent. of the tenants are absolute proprietors of the land there. With regard to paragraph 6 I will speak from my personal experience as a land owner. On my best land I pay Rs. 10 an acre to the Government. In depressed times its value is about Rs. 2,000. In our bye-laws I am entitled to a loan of 50 per cent. of the market value, but if we adopt the Punjab bye-law it means that on my very valuable land I shall get only Rs. 200. Therefore you see we have considerable difficulty in adopting the Punjab bye-laws as models for our society. I am myself a member of a land mortgage bank, from which of course I have not borrowed but I am entitled to borrow 1,000 rupees on each acre, and I am only entitled to borrow Rs. 250 on the basis of the Punjab bye-laws. I can show at least 6 or 7 bye-laws which do not suit Madras or Bombay so far as I know. Will you press this point?

Mr. McDougall: No, I won't press it at all. I find the bye-laws adopted by that society to which I have referred working admirably there. They seem to me to meet all requirements. If there are any reasons why they should not suit the other provinces I will not make a point of it.

Mr. Ramdas Pantulu: My apprehension yesterday when I questioned you was the fear that those laws might be enforced in my province.

Mr. McDougall: So long as you have a representative on that Central Council I have not the slightest fear that that Council will force you to do anything that it is not in your interests to do.

Chairman: You must remember that in a council like that the decision will be the decision of the majority.

Mr. Ramdas Pantulu: On page 16, para 2: "The promoters of co-operation are often enthusiasts who look on co-operation with almost religious fervour. It is seldom that the visionary and the sound business man are to be found in one person". We have two co-operators on the Committee and I would like to know in which category you would place us?

Mr. McDougall: I would place you both in that minority which proves the rule. Because of such enthusiasts who are more of the visionary than business type very large losses have been incurred.

Mr. Ramdas Pantulu: Your remarks with regard to expert bankers on pages 16, 17 and part of 18. We discussed the matter fully yesterday regarding the desirability of giving an expert banking adviser to each province.

Chairman: In your country all co-operative banks have their expert banking advisers?

Dr. Friederich: No special advisers because the managers of the banks are all well-trained in banking. Therefore no special advisers are necessary for our central banks.

Chairman: If similar facilities are available in the provinces in India the need for the banking expert would not arise.

Dr. Friederich: I agree with you. It is useful if central banks have several meetings in order to discuss actual questions.

Chairman: They do meet.

Mr. Ramdas Pantulu: On page 17 are you contemplating only an official staff or a non-official staff or both. (Passage: Trained bankers should be added to the staff of each province).

Mr. McDougall: My opinion is that if there is a trained banker in each province he would very soon be in a position to see to it that the non-official staff would be expert.

Chairman: Therefore, you wanted to have an official staff. In my opinion, if not to-day, the work should be taken off his hands.

Mr. Ramdas Pantulu: With regard to expert accounting on page 8 I think it is on the same lines as expert banker, so far as audit and accounts are concerned.

Mr. McDougall: Exactly on the same lines.

Mr. Ramdas Pantulu: May I know your views on the proposals put forward by Dr. Friederich?

Mr. McDougall: I am in general agreement with him.

Dr. Friederich: I discussed these proposals in a meeting together with my colleagues and they agreed to these proposals.

Mr. Ramdas Pantulu: (p. 7 of Dr. Friederich's paper). You want district audit associations federated into a provincial audit association as apex, and their functions should be those mentioned by you on p. 9 from (*a*) to (*f*).

Dr. Friederich: Yes.

Mr. Ramdas Pantulu: After studying the scheme I understand that this scheme displaces the existing numerous bodies for supervision, inspection and audit. Our work is now cut up into (1) supervision (2) inspection, and (3) audit. Though there is a good deal of overlapping between each of these three though we have not been able to say exactly where one stops and the other begins, we have come to a sort of settled conviction that there is something which is very distinct between them. Your scheme, I take it, is intended to replace all these various institutions and to concentrate in one body the functions of supervision, audit, and inspection, as we at present call them.

Dr. Friederich: Yes.

Mr. Ramdas Pantulu: You think the district audit union will undertake supervision, inspection and audit of all the societies, and such education as is incidental to these functions. General co-operative education is a different matter. We have training institutes and bodies of that sort. You want to affiliate these training institutes and educational institutes to the audit unions.

Dr. Friederich: Yes.

Mr. Ramdas Pantulu: You want general co-operative education and training under these.

Dr. Friederich: You have such examples in the Punjab and in Bihar and Orissa, unions which have to carry out not only supervision, but also audit.

Mr. Ramdas Pantulu: Page 9 (*d*) did not strike me as if it were referring to what we call training institutes where we not only to give training in audit and supervision, but also general education, rural economics, co-operation and banking and things of that sort which will make a person trained as a co-operator with a knowledge of the various branches of co-operation, rural economics, etc. I thought (*d*) is restricted merely to training of people for audit, or does it include general cooperative education also?

Dr. Friederich: You mean with regard to training of secretaries?

Mr. Ramdas Pantulu: (*d*) and (*e*).

Dr. Friederich: All this will be done by audit unions because it is all work on the same lines.

Mr. Ramdas Pantulu: Yesterday we were discussing at some considerable length the formation of provincial educational institutions supplemented by an all-India Institute of Research of an advisory character. I thought these provincial organisations with their branches for various grades of training will undertake generally co-operative education and also the function of training people for audit, supervising, etc., and that the audit unions will do what I have described as the three functions of supervision, audit proper and inspection. That is a modification which I want to propose in your scheme.

Dr. Friederich: The educational institutions can be connected, and it is most useful to connect these institutions very closely, with the unions in order to ensure training according to the principles of auditing and supervising.

Mr. Ramdas Pantulu: If you give me a chance, I will connect them with the provincial institutes or I will set up separate boards on which non-officials and departmental men are represented.

Dr. Friederich: I am very much in favour of this system. Therefore I have recommended advisory boards for each of these unions, advisory boards for special subjects—you can have special advisory boards for credit business, for marketing business—and special advisory boards for education: boards always with officials and non-officials together.

Mr. Ramdas Pantulu: Let me state the position at present in India in the various provinces. Audit is statutory audit by the Registrar, and so long as Cooperative Societies Act stands in its present form and also as it stands in Burma and Bombay where it has been re-enacted by local legislatures, the duty of audit is the statutory function of the Registrar.

Dr. Friederich: Therefore I have recommended that these unions shall be run by Government officials, audit being a Government matter.

Mr. Ramdas Pantulu: We have got some audit unions for some districts just on the lines proposed by you. They are actually working under the provisions of the Co-operative Societies Act. The auditors whom we select have got to be approved by the Registrar, and he practically makes them his men. Thus audit is done by the Registrar by means of his official subordinates and the other auditors whom he approves. I am suggesting therefore that these audit unions might be formed on non-official lines subject to the statutory provision that the auditors appointed to form these institutes are certified and approved by the Registrar. This scheme has a great advantage. The audit unions set up will be financed by the various banks—urban banks, district banks and larger societies, consumers stores, etc.—in a particular proportion, and Government will be requested to supplement.

Dr. Friederich: I have recommended it.

Mr. Ramdas Pantulu: The super-audit or test audit as it is called is conducted by Government officials to see that these auditors are doing their duties properly. They audit 5 per cent. or 10 per cent. of the societies. This can be done with a limited staff by the Registrar. Now the Registrar has an army of auditors with him, nearly 11 lakhs of rupees is spent in Madras and in other provinces. If these audit organisations are set up, therefore, Government may probably divert a portion of the funds which they now spend on official auditors to the audit unions and it is possible that a number of Government auditors may be absorbed in the non-official organisations. I will therefore make two little changes in your scheme, namely: that these unions should not entangle themselves with the functions of co-operative education and expanding the idea of co-operative work and so on; and that they should confine themselves to what in India we connote by the three terms, supervision, inspection, and audit.

Dr. Friederich: In regard to education you want to connect. . . .

Mr. Ramdas Pantulu: I want to connect the education organisations, the provincial institutes, and the central board which will be composed of representatives of provincial institutes, departmental men from various provinces, and one or two officers of the Central Government, and which might assume the same functions as the Vice-Chairman and experts on the Council of Agricultural Research are assuming.

Dr. Friederich: Then you think that general education should not be included in the functions of these unions, but that the practical training of the staff should be handed over to them.

Mr. Ramdas Pantulu: Yes, the general course of education in banking, accounting and audit.

Chairman: There will be a combined staff of auditors, supervisors and inspectors, and those whom it is intended to absorb in that staff will have to serve a period of apprenticeship. To this extent these unions will give training. But the general training of workers, secretaries, etc., will be given by provincial institutes. These are Mr. Ramdas Pantulu's ideas.

Dr. Friederich: I have no objection.

Chairman: That is also Sir Daniel Hamilton's scheme. I looked it up after yesterday's discussion, and his scheme for which he has managed to get some money from Government begins by saying that an additional 60,000 men will be ultimately wanted for the co-operative staff, and that for the thorough training of these men provincial institutions should be established in all provinces. Then it goes on to say that the Government of India should find a portion of the money for this purpose, and that is probably what the Government of India have agreed to do. As a matter of fact I knew something about his scheme because about this time last year when I was a member of Government, he came to see me knowing that I was going to preside over this Committee, and propounded his views before me.

Mr. Ramdas Pantulu: That being so, I will leave out many of the details that you have given on p. 10. With regard to audit unions I look upon them as special bodies, quite independent of provincial institutes which will take up the larger functions of education, propaganda, theoretical training and so on. Special committees with advisory powers should be constituted for the most important subjects of co-operative activity in association with provincial institutes.

Dr. Friederich: When there are important questions with regard to credit business, agricultural credit societies, urban credit societies, the managing committees of district unions should hear the opinion of advisory boards consisting of officials and non-officials.

Mr. Ramdas Pantulu: What I consider best would be for such a board to consult on banking matters the provincial committee and the central bank in the locality, and on other matters of general co-operative interest to consult the standing committee of the provincial institute or the district institute, whatever it is, on education, propaganda, etc.

Dr. Friederich: Of course this advisory board will be composed of representatives of the unions, representatives of the central bank, or in

case you have several central banks, representatives of them all; representatives of urban credit societies, agricultural credit societies in case you have a special credit advisory board; in case you have a special marketing board you must have representatives of the various kinds of societies you have.

Mr. Ramdas Pantulu: Your audit unions become cumbrous bodies with such functions which really do not pertain to them. There are very definite functions which can be brought together under your scheme. I will have these audit unions for the districts federated into a provincial audit union, along with these functions, and I will ask the societies, if they want any advice, to go to the provincial standing committee, provincial institute standing committee, the Registrar, the Imperial Bank, or any other advisory source which is open to them, but I will certainly not like to make the audit unions a sort of multiple purpose societies with various functions.

Chairman: To my mind there may be practical difficulties. Suppose a member of an audit union who is himself an actual auditor advises as a member of the advisory committee that something should be done.

Dr. Friederich: On the advisory committees there will be representatives of societies. Not auditors. There are audit unions in Czecho-Slavokia Hungary, Germany and Bavaria, and other countries of middle Europe. The staff of the unions has to execute the local audit. The unions shall have a license issued by Government that they are authorised to carry out this local audit. To have a close connection Government officials may run these unions, and you can have your Dy. Registrars as managers of such district unions.

Mr. Ramdas Pantulu: There is no objection to that. I agree to the four functions mentioned by you as regards (*e*) is it a provincial audit union or a provincial co-operative union that you contemplate?

Chairman: You say what the main tasks of the provincial unions should be and then put down (*a*), (*b*), (*c*), (*d*) and (*e*). It means that (*e*) would be a function of the provincial union which is now put down as a union of auditors, supervisors and inspectors.

Dr. Friederich: My district unions are not based on auditors. They are based on primary societies, central banks, all kinds of central societies. These district unions have managing committees, and at the top of these committees there should be Government officials. Auditors will be only employees of the unions, they will not be Government officials. These managing committees will have special advisory boards composed of representatives of affiliated societies. The provincial union will be the apex union to carry on the tasks I have detailed here.

Mr. Ramdas Pantulu: In the case of what we call provincial co-operative institute, provincial co-operative union, advisory powers are already there I was understanding the whole of your scheme as referring to the provincial apex audit union.

Dr. Friederich: The provincial apex union has only to audit central societies, central banks and not primary societies because central banks are associated with district unions.

Mr. Ramdas Pantulu: Instead of clarifying the issue I am afraid I am making the issue more confused. I understood the whole of your scheme of audit district unions and audit provincial unions as something separate from what we have now got as a provincial co-operative union for the whole province with functions educational, propagandistic, etc. If I understand you right your provincial union is the apex union for district audit unions and is a distinct body from the provincial co-operative institute. Your district audit unions will audit the several primary societies, urban banks and so on. Your provincial audit union will audit the central banks and probably the large land mortgage banks and things of that sort which are spread over the whole province.

Dr. Friederich: Yes, I do not make any proposals as regards the provincial bank. I would leave it to the decision of the provincial union and the Registrar whether one of the staff shall audit the apex bank or better still whether a non-official shall do it.

Mr. Ramdas Pantulu: Therefore I have understood your scheme correctly. You are referring to district unions and a provincial audit union. While I can see that functions (*a*), (*b*), (*c*), and (*d*), mentioned on page 9 correctly pertain to the provincial audit union which is the apex of the district audit unions, I really do not see how functions mentioned by you on p. 10 of having advisory committees for marketing, credit and various things like that at all fall within the purview of this audit union.

Dr. Friederich: That is most useful especially with regard to organising work, forming new societies. In my country advisory boards have to be heard with regard to questions of policy concerning rate of interest, promotion of savings, loan societies, marketing, formation of special societies for supply, etc. The representatives of societies will thus have to be heard whether in their opinion such measures are useful or not. I want to strengthen the responsibility of co-operators outside these unions.

Mr. Ramdas Pantulu: I do not see how these functions pertain to audit unions.

Dr. Friederich: Audit unions are not only audit unions, but are also advisory unions which shall give the members much good advice. You have in your unions well trained auditors to carry out audit, employees who are not so well trained as these auditors, and special people for special matters such as organisation, etc. It is very useful to bring all these people together.

Chairman: I think we appreciate Dr. Friederich's point of view. He started with the proposition that even the Registrar should be an expert auditor. I do not know whether he is himself an auditor. He apparently holds the view that auditors could best perform all sorts of administrative work.

Dr. Friederich: One matter is sure: audit and supervision in this country are not effective enough. I have made proposals on the experience of countries which have co-operative societies, and I can tell you that the scheme has been more or less copied from the practice in other countries. I am quite sure in case this scheme is adopted in India you will have very effective audit.

Chairman: We are very much impressed with what you say as regards audit inspection and supervision. But Mr. McDougall will perhaps realise the force of my remarks. In England would you think a union of people engaged in audit, inspection and supervision a most competent body to deal with administrative matters like the development of co-operative education, co-operative marketing, etc. To my mind these functions are fundamentally different. Mr. Ramdas Pantulu does not question (*a*), (*b*), (*c*), and (*d*) on page 9. But when we come to (*e*) leaving aside the first item of auditing which undoubtedly will come there subject to such supervision as the Registrar might exercise, in regard to questions like co-operative credit, co-operative marketing, I share Mr. Ramdas Pantulu's views.

Dr. Friederich: I did not suggest that the Registrar should be an expert Auditor. It will be clear if you look at the minutes. All I said was that the Registrar should get a good training in Co-operation and in Auditing at the Central Co-operative Institution. I did not say that he should be an expert Auditor.

Chairman: Perhaps I have stressed too much on the word 'expert', but you said that he should have training in Auditing. What has Mr. McDougall to say on items (*e*), (*f*) and (*g*)?

Mr. McDougall: As I understood Mr. Ramdas Pantulu's ideas, not only are we going to have a Central School of Co-operation, but we are also going to have a Secondary School in the provinces with which I entirely agree. I did not suggest that, because I feared that the cost would be more than the country could bear at the present time. If it is possible then I entirely agree that provincial schools should be established. I want to make it clear—I am sorry to have to disagree on this point with my colleague—that a registrar need not be an expert auditor. He must be a really great administrator.

Chairman: I think we will leave it at that.

Dr. Friederich: I want to put forward that it would be useful to connect the organizing work with Audit and Supervision. The inspectors who go out can collect a certain amount of information. They know the local conditions and they can give advice as to how it could be done. They have the knowledge necessary for organising work. Therefore it is combined in other countries and they find it useful.

Chairman: I asked Mr. McDougall whether this is done in England So far as I know it is not. You say in all countries it is combined; firstly it is not done in England. While we see the advantage of having Auditing Unions, knowing the circumstances of this country, I for one do not see the advantage of it here. Practically it brings me back to what Mr. McDougall at one stage said yesterday about the Committee of experts trying to do administration work, and I told him that we had solved that so far as the Central Council of Agricultural Research was concerned. This strikes me the same way. I have the slightest objection, and I have the slightest doubt that it will be done, some of the expert auditors being summoned to attend the meeting of the administrative body. They are bound to do it, but the work is not one which can be left to that particular institution. That is my whole point.

Dr. Friederich: The more organisations you have, the more money you have to spend. If the knowledge is collected and used in the manner I have suggested, too much money has not to be spent for co-operation work.

Chairman: Excepting the small permanent staff, the existing Provincial Co-operative Institutes do not cost any money. In fact, as Mr. Ramdas Pantulu at one stage pointed out, it really hinges on the point you have now raised. If we were to make the All-India Institution a bigger thing and tell Government that it is the primary function of this Institution to do statutory auditing, etc., and ask them to meet the whole cost of the Institution, there may be trouble; and to my mind I find it difficult to realise how a body entrusted with statutory audit primarily can again be formed into an advisory body to deal with administrative matters. They are experts and their advice will undoubtedly be available.

Dr. Friederich: I am sorry you misunderstood my ideas.

Chairman: I am very sorry if I have misunderstood you. For the last half an hour I have been trying to find out the point of difference between you and Mr. Ramdas Pantulu and I am very sorry if you end up by still saying that the misunderstanding is not cleared up. I and Mr. Ramdas Pantulu are in fullest sympathy with your ideas about a Union of Auditor Supervisors.

Dr. Friederich: I beg your pardon, no Unions of auditors. They are Unions of Co-operative societies.

Chairman: Then it is different again. All I can say is this. It cannot be done without making the conditions worse. The Co-operative Institution can hardly be entrusted to do statutory audit, the responsibility in regard to which the Act leaves to the Registrar. That being so, there is a difference between us in what I may call fundamentals and I think we had better leave it at that.

Dr. Friederich: But I made it quite clear that Government should form special unions consisting of primary societies and central banks situated within a special area.

Chairman: I fully realise that. Then Mr. Ramdas Pantulu started discussing the matter with you. He pointed out that it would be impossible to mix up these functions and said that if you could confine your Union to doing this particular function, he would be willing to accept your proposition. I may have misunderstood you here again, but I thought you said that you agreed with that proposition.

Dr. Friederich: I want to add that this system which I propose is a system experienced for 80 years of Co-operation in my country.

Chairman: I fully understand that. What may be good for Germany may not be good for England and what may be good for Holland may not be good for India.

Mr. Ramdas Pantulu: When you refer to "current accounts and cheques", are you thinking of central banks or of the primary societies?

Mr. McDougall: Where possible, both.

Mr. Ramdas Pantulu: I may tell you that in the bigger urban banks and in the central banks in most areas we have current accounts and a

cheque system, but having regard to the small literacy in the villages and the difficulty of persuading people to accept cheques, they have not been introduced in the village societies except in very exceptional cases to a small extent.

Mr. McDougall: The reason why I referred to this at all was that I wished to emphasise the point. As your country develops so should you to concentrate on this. I am well aware that the vast majority of your primary societies as they exist at present are not fitted for this system, The co-operative movement should however introduce it when and where it can be done with reasonable safety.

Mr. Ramdas Pantulu: It follows that you will agree to the vernacular being used for the cheques .

Mr. McDougall: Certainly.

Mr. Ramdas Pantulu: If they are to be in English, it would be difficult.

Mr. McDougall: I see no reason why the vernacular should not be used.

Mr. Ramdas Pantulu: With regard to your proposal regarding "Co-operation and the Reserve Bank", the only difficulty we find in the Reserve Bank Bill which was introduced in, 1927 and afterwards amended in 1928 is that certain facilities for re-discounting co-operative paper countersigned by the provincial co-operative banks are to be found there. and beyond that we cannot go. Apparently you want some more help to be given to the co-operative movement. I do not wish to pursue the subject, because practical bankers, and probably the Chairman, may pursue it at length. I have one idea in my mind which I wish to put before the Committee, but I do not know how it will be received and how far it is practical. I was thinking of having a rural credits department for the Reserve bank as they have in the Australian Commonwealth Bank Act. In 1925 the Commonwealth Bank Act was amended creating a rural section. Tht Act creates a rural section to which some funds will be given from various sources; a portion of the profits of each department will be transferred and the Treasury can place some money for the transactions. Your idea of the Reserve Bank functioning as the Agent of the Government of India with regard to certain State funds comes very near the idea. In whatever form it may ultimately be introduced, I wish to press my personal view upon the Committee that there must be something more in the Reserve Bank Act than a mere provision for the rediscounting of paper countersigned by provincial co-operative banks, and one such thing is what is contained in the Rural Credits Act. I have examined the position in South Africa, it is not the same there, but it is very much the same on different lines. In South Africa there are two State Banks, one called the Land Bank and the other the Reserve Bank. In the Land Bank, originally there was no provision for rural credits, but now there is another Act of 1926 according to which a Rural Credits Department has been fixed up and various provisions are introduced. Whichever model is adopted, I want some kind of State assistance with State funds on banking principles (not merely by doles and charity system) to be placed for rural credits through the Reserve Bank.

Mr. McDougall: I should be prepared to support you more as a co-operator than as an agriculturist. As a matter of fact, I discussed this with my colleagues, we considered it difficult to bring co-operative banking within the function of the Reserve Bank, we agreed ultimately that the Reserve Bank should be used for this purpose.

Mr. Ramdas Pantulu: With regard to your opinion here that the postal savings which are now collected by Government through post offices may be placed at the disposal of the co-operative movement for rural credit, I leave it to the Chairman, because he has direct knowledge of the work of the Postal Savings Department, having been at the head of the Postal Department for some time. So long as some funds are placed to the credit of the rural areas, I do not mind.

Mr. McDougall: I agree.

Chairman: On the proposition that the State should take some steps to place more funds at the disposal of the co-operative credit movement, there may not be much difference of opinion in the Committee on the fundamental issue, but certainly I am not in a position to commit myself now.

Mr. Ramdas Pantulu referred to the Commonwealth Bank (Rural Credits) Act. I do not know whether he read the provisions of that Act, because it brings out how advances are to be made.

> "Advances may be made by the Rural Credits Department, upon the security of primary produce placed under the legal control of the Bank."
>
> "In lieu of making advances in accordance with the provisions of this part, the Rural Credits Department may discount bills secured upon produce placed under the legal control of the Bank."

I think those provisions were recommended to us by Dr. Trip, and I think we have included them in our proposals regarding the Reserve Bank.

Mr. Ramdas Pantulu: I am quite aware of the provisions.

Chairman: This is a Reserve Bank which has been allowed to do this work by the combined efforts of the Reserve Bank and not any particular compartment of it.

I might read out the following extract in this connection:

> "These considerations bring us to the conclusion that the Reserve Bank should be given the opportunity of making advances on the security of movable goods, wares and merchandise besides warehouse warrants and warehouse receipts representing the same".

Under the provisional conclusions at which we have arrived after discussion with the Experts, we have decided that the Reserve Bank will do that work as a whole. Now I will come to the matter of the postal savings banks. I dare say you are aware of a Committee in England which dealt with the question of rural credits and they themselves were inclined to make some recommendations on those lines. They reported "We further suggest that the State funds employed for the scheme should be derived

from the sale of certificates from the rural areas". That is what they recommended. Other Committees brought out the fact that the money was spent for the best interests of the Nation and the second point was that after all the State was responsible for the payment of those sums and the State could not therefore use the funds for any specific purpose. If money were used and lost the State's responsibility would remain. In the end they enacted the Agriculturists Credits Act of 1928 by which they provided that certain sums of money would be made available from funds at the disposal of the State for providing agricultural credit. They did not proceed on the compartmental basis because they realised the unsoundness of that position and they said that the Treasury would make advances to the Company established for the purpose of granting agricultural credits not exceeding £750,000 in the aggregate with a recurring annual contribution of £10,000 for 10 years. Now the corresponding similarity for India would be for the Provincial Governments similarly to make available for the co-operative movement, if and when the time comes, specified sums of money which will then go into the ways and means of calculations of the Provincial Governments and they will have to make money available by borrowing direct or from the Central Government. I take it that you do not object to the details of the arrangement except leaving it by saying as in our discussions with your colleagues and yourself the other day that some specific action should be taken in the matter.

Mr. McDougall: I entirely agree. I am concerned with principles not details.

Mr. Ramdas Pantulu: I merely raised this point with a view to elicit your opinion. We will now leave the subject to the experts in these matters to guide us properly.

Mr. Ramdas Pantulu: Now let us pass on to another point. You say

> "Finally, we feel compelled to stress the necessity for the co-operative banking movement restricting, as far as possible, the disbursement of its profits and to build up strong reserves out of these profits. These reserves—we refer to those of the Central and Provincial Banks—should not be used for granting credits, but should be invested in gilt-edged securities".

I may tell you that it is the practice now. Only rural societies invest their funds but the central banks are required to keep their funds with the provincial banks and the provincial banks are asked to keep their funds in gilt edged securities. So far as Madras is concerned we have kept the whole of the reserves of the central banks in Government securities. Regarding profits there is the statutory obligation on these banks to put 25 per cent. of the total net profits to the Reserve Fund and it is also provided that the Registrar can force these banks to put by 50 per cent. of their net profits if he considers it necessary in the interests of the banks. Are you prepared to increase these rates?

Mr. McDougall: Build up your reserves, build up your reserves, that is the general principle I wanted to lay stress on.

Mr. Ramdas Pantulu: I wanted to know whether you have to make any specific comments or suggestions to offer in regard to this.

Mr. McDougall: I personally have the impression that some of the areas are not sufficiently cautious in this respect. They give sufficient

consideration to this fundamental need. I have not the slightest doubt that in the well managed provinces this advice is not required, with regard to others it should be very strongly stressed.

Mr. Ramdas Pantulu: I might say that the dividend also is statutorily fixed and I do not think more than 9 per cent. is paid anywhere in India. The highest is 9 and the lowest is 6 per cent. Therefore when the dividend is fixed and the creation of reserves made statutorily obligatory there is nothing else to do in that direction. But there is ample scope to do other things, *e.g.*, in Madras the Registrar has said that he has reasons to think that the assets of the primary societies are not quite sound, and therefore he has insisted on the creation of a Reserve fund to provide against bad and doubtful debts over and above the general Reserve.

Mr. McDougall: I think as a general proposition it is quite good.

Mr. Ramdas Pantulu: I endorse your view.

Dr. Hyder: The first good rule would be that the society would see to it that the bad debts are as little as possible.

Chairman: But still there must be some bad debts. You cannot help it.

Mr. Ramdas Pantulu: I am not encouraging bad debts.

Dr. Hyder: I have got one or two observations to make to clear up the position. We have got into difficulties with Dr. Friederich and I request Dr. Friederich to forget for the moment the paper that he has submitted to us. Through your (Dr. Friederich's) kindness I have been provided in original with the byelaws of a Uerband which exists in your province. You insisted upon this fact that these things are done in your country and that there is the experience of 80 years behind it and that the whole of Central Europe practices this system. Therefore it is for us to consider what that system is from the byelaws of the Hessian Agricultural Co-operative societies. Now, I take it that you have got there what you may call a union covering the whole of Hess.

Dr. Friederich: Yes.

Dr. Hyder: The objects of these, what you call Federated Unions, are as follows:—

(1) The considerations of the development and representation of common interests.

(2) For making perfect arrangements in regard to the procedure and method of business in the federated co-operative societies by the provision of technical discussion or advice.

(3) To carry out the duties laid down by the Imperial law as regards audit.

(4) The encouragement and direction as regards the establishment of agricultural societies.

(5) The encouragement and the establishment of central societies according to Article (9) of the Imperial law. These are the objects of the union with which you are familiar.

Dr. Friederich: Yes.

Dr. Hyder: The members of the Union are only federated societies?

Dr. Friederich: Yes. This union is not a co-operative society but co-operative societies form this Union. It is a Registered Association.

Dr. Hyder: Its membership is confined to agricultural societies which are based upon the principle of self-help in agriculture co-operatively organised and these societies represent the interests of the rural people. Is that so?

Dr. Friederich: Yes.

Dr. Hyder: The organs of this Federated Union are that it has got a Congress. Then there is a Committee of this Union and a smaller committee and then there is the Manager of the Union. In this respect the co-operative societies have got certain duties and obligations. One of the obligations is that these co-operative societies have got to subject themselves to the audit ordained by the Federated Union through the help of technical experts.

Dr. Friederich: Yes.

Dr. Hyder: I want you to forget your idea of what you have written for a moment. In these byelaws it is laid down how the audit is to be carried on and so on. Now if I understood these byelaws correctly that one of these objects, namely, the encouragement of agriculture by co-operation, I take it that the auditor is never a member of this Federated Union.

Dr. Friederich: I never said it was so.

Dr. Hyder: This Federated Union can do nothing for the purpose of carrying out one of the objects, *viz.*, auditing. Does that summarise correctly the position as regards Federated Unions in your part of the world?

Dr. Friederich: The audit is carried out on behalf of the registered union by auditors being employees. You have not mentioned anything about Advisory Boards.

Dr. Hyder: Let us not mix the functions of audit with the encouragement and development of the idea of co-operation.

Dr. Friederich: There is big difference between the proposal and our Unions and that is that our Unions are run purely by private enterprise and not by Government. The Unions are only licensed. The Co-operative movement is a self-supporting movement free of State control in our country. These registered associations have to send balance sheets to Government and no more and only in case these Unions do not effect the task of audit properly, Government can close such unions. But now in regard to the advisory boards—and I am in full agreement with my colleagues that in this country people are nearly dependent on Government. That is our idea. With regard to literacy and experience of running these institutions also we cannot compare the two countries. We have in our country a system which is fully independent of Government control and the system in this country is fully dependent on Government. To bring the forces of Government and honorary workers together it is that I propose these special advisory boards.

Dr. Hyder: I must with regret say that you have not completely borne in mind the request I made to you. I wanted to be sure of the facts as they exist in your country. May I ask you whether the auditor in your part of the world has also got to perform the duty of encouraging the establishment and helping in the development of co-operative societies?

Dr. Friederich: Certainly. He has to do it and he does it now.

Dr. Hyder: It is part of his duty to encourage people to establish co-operative societies also?

Dr. Friederich: Yes.

Dr. Hyder: And you say that this should be done in this country.

Dr. Friederich: Yes, I recommend it.

Dr. Hyder: Then take the case of the primary societies. Is this fixing and the granting of the credit done at the Congress or is it done by some other organ of the primary co-operative credit society in your country?

Dr. Friederich: Credit must be fixed by the Managing Committee with the assistance of the supervising board. The General meeting has to fix within what limits the Managing Committee and the Supervising Board are allowed to fix the credit to each individual. The General Meeting fixes the utmost credit limit, say, Rs. 3,000 and decides that the Managing Committee is allowed to fix credits for every individual member up to Rs. 500 and the Managing Committee together with the supervising board are allowed to fix credits up to Rs. 3,000.

Dr. Hyder: But the actual giving of the credit is done by the Managing Committee?

Dr. Friederich: That is so.

Dr. Hyder: Mr. McDougall I have followed closely your idea of the land mortgage bank. When I was listening to the discussion two doubts arose in my mind. Taking into consideration the experience of a country in which such land mortgage banks were established we were given some papers of the Agricultural Commission with regard to Egypt and some of our members visited Egypt. There an Agricultural Bank was established with a Government guarantee of debentures and its loans were of two classes, namely A and B. B were of longer duration and the amount was large. The bank had what you call zemindari rights, that is to say it could acquire the properties in case of default, and sell the properties. The experience of the bank was that it got saddled with a large number of properties and the Egyptian Government had to pass a law which restricted, just as we are restricting here the right of the fellah in this matter, namely attachment, sale and foreclosure for any loan advanced either by the Agricultural Bank or by any body. The first doubt that arose in my mind was that perhaps there was this guarantee of debentures and no proper care was taken in the matter of scrutinising the applications received for loans to be granted by this bank because I am not in a position to say, but the actual facts prove that the management of the bank was free in agricultural loans. The second lesson which comes prominently from that example is that unless cultivators have education and character it would be worse than poison to place facile credit within their reach. Given these two things, that the cultivator will use the loan which he receives from a bank for the purpose stated in the application and makes the best use of the loan instead of squandering it or spending it on other purposes, the chances are that it will only act as a dope and the man will be in a worse position than when he started. It would be much better that no mortgage bank existed and there would be no temptation. I wonder then what your

position is in view of the example which I have given to you both in the matter of Government guarantee of debentures and in the matter of granting credit unless it is after the most strict scrutiny?

Mr. McDougall: I have pointed out very briefly that the utmost case should be taken in giving these loans to see to it that the cultivator is in a position to repay, that his stability is such that a loan will really do him good. I quite agree with your outline of the position. It is sound. The granting of a loan to a man under the conditions which you have described is merely doing him a grave disservice. It is the same thing in more highly developed countries. At one time I criticised our banking system very severely for this lack of elasticity in regard to credits. I am not so sure that that criticism was justified after seeing the results of easy credits. Easy credits can become a curse to the borrower.

Dr. Hyder: I am for a policy of extreme caution in this matter, especially in view of what was placed before us in Egypt—that was a country which had no Alienation of Land Act. They established this land mortgage bank and they were forced to enact a similar measure there. With regard to point No. 2, this idea of an All-India co-operative council, I take it that you are not satisfied with what you may call the mental and technical equipment of co-operatives in India especially in the matter of co-operative education?

Mr. McDougall: No. The Royal Commission on Agriculture has referred to this, their report states that all the resources of the State must be used to further this movement, if any progress is to be made.

Dr. Hyder: What you really want in the matter of education is a sort of Oxford or Horace Plunkett Institution where these co-operators can come into active contact with these really great minds, and the teachers, I take it, must possess cool heads and warm hearts.

Mr. McDougall: Something much more than a Horace Plunkett institute.

Dr. Hyder: It has a technical side and also a spiritual side and therefore you consider it necessary that there should be contact not only through text books but through touch with the leading minds so that the whole of this co-operative movement may have a proper upper staff. I take it that the basic idea of co-operation is 'Each for all and all for each', therefore if we are to be true to the idea of co-operation, it can only be a matter of mutual free consent. It would flourish under these conditions, it would not flourish otherwise. If the need was sufficiently brought home to the Provinces they may say here is an idea, we want good men, well-equipped for management of the co-operative movement. If we cannot afford this expense individually, let us join together and have an institute in which great teachers can give the message of co-operation and technically prepare with cool heads the students for the great task which lies before them. From that point of view, on the basis of mutual free consent you say that you would like a co-operative council, one of whose functions would be to have such an institute, and after all it is the institute that matters.

Mr. Devadhar: Will you please tell us whether you exclude from what

you describe here as the moneylender, the class what we call the indigenous banker?

Mr. McDougall: I should think that the indigenous banker is too big a man to come in here.

Mr. Devadhar: So your remark applies primarily to men in small villages?

Mr. McDougall: If there is any possible way of getting an indigenous banker into the scheme I should have not the slightest objection.

Mr. Devadhar: Now you say it was taken for granted that the moneylender was an enemy who must be destroyed. Was this impression created in your mind by talks with any of the agriculturists?

Mr. McDougall: Yes, I came across one extreme case where a film was actually produced and exhibited in villages and I think it was withdrawn because it was realised that ultimately it did more harm than good.

Mr. Devadhar: We had a film like that and I had to go and see whether the drama was likely to do more harm than good. But this is more or less a sort of exaggerated picture.

Ch. Mukhtar Singh: In the Punjab there are songs against them and they are always encouraged to be sung.

Mr. McDougall: This memorandum which I have written on the lender is not only based on what I have seen and heard in my very short visit here and after a very cursory examination of the situation, but also on my own practical experience in England with regard to a similar class, the dealer class. I started one organisation in Oxfordshire some years ago a farmers' organisation for selling livestock. I was faced with this—we were to stand out against the dealer and eliminate him. If we did it would be a long fight. What advantage were we going to get out of it? I decided I think fortunately, and I think 99 per cent. of the farmers who use their market now agree that we were wise. We did not antagonise them. We used them, we built up an organisation that even he could use to benefit. We reduced the numbers of hands through which stock passes. We centralised and we made use of that man to the benefit of the farmers and to the benefit of the capable dealer.

Mr. Devadhar: I quite realise the necessity for making no attempt at antagonisation and also the usefulness of bringing these gentlemen, who have rendered great service in the past, into the movement if possible. I find difficulties in the way. For instance you have said in your paper that co-operation is not charity. Now the moneylender, I am talking of the small man who derives his resources from bigger bankers, goes right into the villages and distributes his money at considerably high rates of interest, which probably self interest promotes him to do, or more expensive methods though they may be primitive, compel him to do that. Now the object of the co-operative movement is to bring down the rate of interest. How are these two to be reconciled? He is not actuated by any motive of social service and he wants to make as large a profit as he possibly can. How would you advise us to bring him into this?

Mr. McDougall: If, as I have tried to describe, you make the moneylender part of the movement, if you increase his prestige instead of

making him feel that he is an objectionable member of society and if you make him feel that by coming into the movement he will be a much respected member of society then you may get him. He must be made to realise that his methods of doing business have got to change and that even he is not safe. He for good or ill has to become part of a more organised system than there has been in the past. He must be taught while it may be possible that his year's profits or indeed his nett profits will not be as great as it has been in the past, it will be safer for him in the long run.

Mr. Devadhar: In your conversations with several people who have been working in this field have you been pointed out any place where this has been tried, and successfully tried?

Mr. McDougall: I have discussed this idea with Registrars and they are very much in sympathy with it.

Mr. Devadhar: But I should like to know whether it has been tried anywhere.

Mr. McDougall: Yes, in one part of a province we come across one case where I think Rs. 36,000 was advanced by moneylenders to a Union.

Mr. Devadhar: In that way I can cite many cases of assistance by the local moneylender, where he has deposited a certain portion of his capital. No co-operative society would be advised to borrow even locally at a rate higher than 6 per cent. Do you think this would satisfy a moneylender?

Mr. McDougall: I have discussed the matter with one or two members of the moneylending class and also with actual moneylenders. I asked Registrars if they had ever thought of making use of the moneylender? They indicated that it was a matter of very great interest and they agreed that it might be possible to use him with advantage. I met one particularly intelligent man whose people are all moneylenders. He informed us that in his opinion if the moneylender was given a chance and treated properly he would come into the scheme and instead of being a hindrance he would be a help.

Mr. Devadhar: His complaint was ill-treatment?

Mr. McDougall: Yes or perhaps it would be better to say discourtesy.

Chairman: I judge from this talk that apparently the correctness of the third sentence is not admitted in all parts of the country.

Mr. Devadhar: My own view is that there is nothing like a definite policy of antagonising any class.

Chairman: That may be in Bombay. Mr. Ramdas tells me it is not so in Madras. At the same time we have definite information that it has been so in the Punjab. Therefore Mr. McDougall as you have not toured extensively in the other provinces I suggest to you that to make your statement absolutely correct you might add these words after "it was taken for granted" "at any rate in certain parts of the country".

Mr. Devadhar: The second point—"the co-operative organisation should not refuse to consider the possibility of making use of his (the moneylender's) capital or experience." I can tell you from my own

experience that we have never done it, we would like to take him in but he has his own interests. He would be for charging as high a rate of interest as possible, whereas the co-operative movement was definitely started for the purpose of bringing down the rate of interest. Therefore to me it appears that the two are incompatible. If money is made available at a cheap rate through the co-operative agency and there is in the same town a moneylender who would not charge less than 12 per cent. or 15 per cent., I think ordinarily any attempt made on our part to bring him into the organisation will either frustrate his motive or will not allow us to gain our object.

Mr. McDougall: Well the evidence I had was that it is in operation in the Punjab where in one instance Rs. 36,000 has been advanced to the co-operative union and the moneylenders were satisfied with the average per cent. They feel that the advantages to be earned from coming within the movement, are such that they are better with a lower percentage of interest inside than a higher percentage of interest outside.

Mr. Devadhar: But in your own paper you show that it was necessary to undertake certain precautions in admitting him.

Mr. McDougall: You must make certain provisions against exploiting.

Mr. Devadhar: You have come across a place where this experiment has been tried on a large scale.

Chairman: In one report it is distinctly stated that moneylenders take advantage of the co-operative socities to borrow at cheap rates and lend out at high rates. It has actually recommended that steps should be taken to prevent moneylenders becoming members of co-operative societies. I am trying to get out the reference because it will go to some extent against your suggestion.

Mr. McDougall: I remember coming across that.

Mr. Devadhar: I will give you another instance from which you will see that they are not willing to avail themselves of the experience of moneylenders. In Kannada we were discussing whether on the managing committee of a cotton sale society there should be a mahajan who had considerable experience. It was as a matter of fact decided by a large majority that that man should not be brought near it, because he had his own business and as a member of the managing committee he would come to know everything about others, and it was doubtful whether he would be of much use. That is the practical difficulty.

Mr. McDougall: I am well aware of the practical difficulty unless there was a change in the outlook of the moneylender.

Mr. Devadhar: About 20 years ago I made my first attempt to start a small society near Poona. The limit for an individual loan was fixed at Rs. 300/-. The people in that village consulted the moneylender of the place. He frightened them saying, 'You are getting into a trap, you won't get all the money you want.' I made friends with him and told him, 'You are a big man, you must help these people to arrange the whole thing.' As a matter of fact there is great need for taking the opinion of that man also. But he was not sufficiently intelligent. Ordinarily it is difficult to make friends with him. How can we deal with a man like this?

Mr. McDougall: You must remember that the co-operative movement is becoming established. The moneylender must realise that his position is not as strong as it once was and that it is not inconceivable that it might become worse. I think this is a very opportune moment to make some effort to get him into the organisation, and to work along with instead of working against.

Mr. Devadhar: I have not found people to work against it. I have no complaint against the moneylender.

Mr. McDougall: You don't think he is of much advantage to the movement.

Mr. Devadhar: Not at present. His money is useful provided we get it cheap.

Mr. McDougall: I think it is worth making an attempt.

Chairman: Apparently circumstances differ in different parts of the country. It is worth getting his money if he will work on co-operative principles. Unfortunately I have a recollection that some of the provincial reports have brought out the fact that he comes into the movement, not with the spirit of a co-operator, his whole object being to borrow cheap and lend out at high rates.

Lala Harkishen Lal: How much to borrow? Limits are fixed.

Chairman: Being a rich man his limit must be comparatively high.

Lala Harkishen Lal: After all the limits for individuals are fixed with regard to the resources of the society and he must establish his need for the loan.

Mr. McDougall: I am suggesting that the moneylender should come into the movement to give money, not to take it.

Mr. Devadhar: I am pointing out a practical difficulty. Your position in regard to the moneylender is that you would welcome him into the movement if he brings his money and sheds his anti-social tendencies. We can only admit him if he comes through the door of 6 per cent. and not 12 per cent.

Mr. McDougall: Obviously you cannot get the moneylenders money at 2 per cent. less than the bank rate. You can get it at the same rate as you are paying to the Central Bank.

Mr. Devadhar: It is much better to deal with the central bank because it is our organisation and whatever the profit is it will go to build it up.

Mr. McDougall: There are other considerations. You are strengthening the primary society.

Mr. Devadhar: By primary society you mean the society in the village. In order to strengthen the primary society, if money is not locally available at a cheap rate, it is best for it to borrow it from the central bank. If the society is an A class society there is the chance of its getting a small rebate. I have several cases in which interest charged is 8 per cent. and where as a result of a rebate of 8 as. per cent. the rate actually works out to 7½ per cent.

Mr. McDougall: If you get money pouring into the movement obviously it would reduce the rate of interest.

Mr. Devadhar: That money must come cheap.

Mr. McDougall: Undoubtedly is will get cheaper.

Mr. Devadhar: My doubt is whether the moneylender will be prepared to come into the movement as we want him to.

Mr. McDougall: I have had a curious experience with regard to moneylenders. We visited about 20 co-operative societies. One of the questions we asked at the meetings of these societies was what their attitude was towards the moneylender. The moneylender was looked on as a friend in all these cases. Not in one instance did we find a case being made against him.

Chairman: Circumstances in different parts of the country differ. So long as the moneylender wants to join the co-operative movement in the spirit of co-operation I have no doubt that the co-operative movement will not refuse to take him. But the experience in different provinces is different. I have been told that in Madras some societies were actually started on the initiative of moneylenders who wanted to get back their loans from the villagers. The position is this. Where there are good moneylenders who want to come within the movement nothing should be done to prevent their coming into it.

Mr. McDougall: Not only that nothing should be done but that they should be welcomed.

Chairman: If you are not satisfied (to Mr. Devadhar) we will pursue this to-morrow. The point that we would like to discuss with you (to Dr. Trip) is something which bears on 3 (1) on page 12 of Mr. McDougall's paper. What he says is this: Government should provide the share capital, but they should not guarantee the interest on debentures. Does the guarantee refer both to interest and capital?

Dr. Trip: Yes.

Chairman: The arrangement adopted in India is this: Government does not provide the share capital, but guarantees interest on debentures. We want to know what your objection is to the present arrangement and your preference to the arrangement you propose.

Dr. Trip: As a general rule we prefer that these kinds of things are done without any help of Government. That would be an ideal state of affairs. But we realise that at present it is impossible for this country to achieve this end. So we thought about what would be the best way to get money from the public and came to the conclusion that it would not be possible to get money from the public for the share capital. We were of opinion that the best thing to be done in the first stage would be to get Government to take the share capital which would not be placed with the public, and that if a sound policy is followed public would take up the debentures because debentures are a safer investment than shares. We saw that the public was not willing to finance the whole movement. and logically in our opinion Government should help at the weakest point, and that is, the share capital, and not debentures, as there is more likelihood that the public would be prepared to take debentures than shares.

Chairman: The experience in India has been quite contrary. I think in no province was it possible to get debentures subscribed to without a guarantee of Government. I had discussions with the Managing Director of the Land Mortgage Bank in Mysore. He said it would be impossible from the practical point of view to get any debenture capital without Government guaranteeing interest.

Dr. Trip: May I ask, who took the shares? Was it the public at large?

Mr. Ramdas Pantulu: There are two points involved. The share capital required borrowers put in. They are not required to put in a large share capital, it is a very nominal amount that each borrower has to put in. Again their loans are fully secured by mortgages. I will read to you what the Baroda Committee says in regard to this:

> "It is the practice at some places to do away with the feature of share capital altogether. Strictly speaking share capital is not necessary for a land mortgage bank. We have however thought it necessary to provide for this feature on three distinct grounds. The first and most important consideration is that a small share capital amounting to 5 per cent. of the loans held in cash and 5 per cent. of the reserve liability of the shareholders forms a very good guarantee for the bonds issued by the bank. It is an additional attraction for the bondholder. The second reason why we recommend this feature is that it enables the bank to give loans up to the amount of its share capital and thus makes for economy. In the absence of such funds in the hands of the bank it would have either to issue bonds every time a loan is required or to issue bonds for a good round sum and hold the proceeds in its hands till the loans are made. The third reason why we have recommended the capital feature is that the shareholders have a sort of tangible interest in the bank.

So we started with these ideas and prescribed a very small share capital. When the borrower applies for a loan to a primary land mortgage bank he brings his share capital, 5 per cent. of the loan—if he wants Rs. 100 he brings Rs. 5—and borrows Rs. 95/-. Thus automatically some share capital comes in from borrowers. We have also enlisted as members or shareholders outside public also who do not borrow. Loans are given only to borrowing agriculturists. They have joined the societies to help them.

Dr. Trip: So the shareholders are either borrowers or people who want to help the movement and not the investors whom you will have to attract if you want to reach a real success.

Mr. Ramdas Pantulu: We were not able to take in all the capital they were prepared to lend us. When we started the Central Land Mortgage Bank in Madras primary banks and individuals were shareholders just as central banks. Primary banks could borrow 20 times their share capital. Therefore they bring in their capital automatically into the Central Bank. We have collected share capital from very eminent people in Madras who pressed us to take Rs. 10,000, but we said we could not receive more than Rs. 1,000 because we did not want the bank to be overcapitalised. 50 to 60 thousand rupees was subscribed in a day. Primary banks are bringing in more capital; as loans are advanced capital goes on increasing.

It is an automatic process. Under this arrangement we hav not found any necessity to take share capital from the public.

Dr. Trip: It is all very interesting. It is of decisive interest for what we are proposing. Our opinion is that the only possibility of freeing cultivators from their indebtedness to moneylenders is to develop and use mortgage banks. There is no possibility of any comparison between the present situation and what we have in view. We wrote for the future and not for the present. Your experience may be very good in the present situation under your present regulations, but if you really want to do anything of real influence with regard to the long term indebtedness of the cultivator I am absolutely convinced that you will have to change your policy.

Mr. Ramdas Pantulu: Probably so. One thing more I will tell you. The capacity of a mortgage bank to borrow is really fixed with reference to the mortgages taken by it. The criterion that debentures should be so many times the share capital is only subsidiary. The share capital is not a very important factor in determining our borrowing power.

Dr. Trip: If you want to have a really strong mortgage bank you ought to have a considerable capital behind the debentures, so that their soundness cannot be doubted, and then you will have a much better chance to place in the market all your debentures. That is how we look at the development of the movement.

Chairman: Unfortunately our experience is that we could not start any land mortgage bank on your lines. The Royal Commission on Agriculture have blessed our system.

Dr. Hyder: That is so. Paragraph 383 of the report of the Royal Commission on Indian Agriculture. On that Commission we had many members for considering this question and we had expert members as well.

Dr. Trip: In all countries debentures of mortgage banks are looked upon as first class investments which are not considered as good as Government debentures. I think the interests of the country would be served by going in that direction. You will have to consider the position from the point of view of debentures as investments.

Mr. Ramdas Pantulu: In Germany debentures of land mortgage banks are considered to be very good securities and were quoted at a premium even during the war on the stock exchange.

Dr. Friederich: That is right: those of Landschaften, banks. But the debentures of joint stock mortgage banks with the exception of 2 are not trustee securities. The debentures of the Bavarian mortgage bank are trustee securities.

Mr. Ramdas Pantulu: They have no share capital.

Dr. Friederich: The Landschaften, no.

Dr. Trip: Was there any form of State aid to these mortgage banks?

Dr. Friederich: They are public institutions: they are run by Government.

Chairman: This system may have been derived on the analogy of the German system, I cannot for the present say specifically how it was derived. It was apparently on the analogy of the Landschaften. Whatever land mortgage banks have been started have been started on this basis and I was told that in connection with one bank they had tried to get debenture capital without any guarantee of Government in the first instance. In fact

in most cases what Government does is this: debenture capital up to a maximum of say, X lakhs issued in the next five years will carry a Government guarantee in regard to interest, but not thereafter, the idea being to persuade the public to take these debentures because there is the attraction of interest. It does not mean that Government for all time to come is going to guarantee interest on those debentures. If debentures are issued for 10 or 15 years, those issued for the first five years will carry the guarantee. If any debentures are issued thereafter there will be no guarantee. The whole object, as I understand it, is to make debentures attractive at the stage of the institution of the Land Mortgage Banks.

Dr. Trip: Of course if more land mortgage banks are established, there will gradually be created a larger field for investment. If the debentures are better known, they will be quoted at the Stock Exchange and a large number of investors will be interested in them. I do not think we have any objection to the principle; if it is not possible to raise money in the beginning by selling debentures to the public in the first few years, Government could take or guarantee these debentures.

Chairman: Here the word used is 'should' in both cases. It is rather rigid and when we asked Mr. McDougall about it, he said that the arrangement was blessed by the Royal Commission on Agriculture. When asked whether he would object to the existing practice, he said he could not say anything about it and asked us to consult you.

Dr. Trip: I should like to stress once again that if you want to have a real development of this movement, I am absolutely convinced that it should go on in the direction we have proposed. But perhaps we did not make it clear enough that our conceptions were with regard to the future, and not with regard to the present stage of the movement. Practically we were of opinion that there is no mortgage credit in the country. If you look on one side at the needs for mortgage credit and on the other side at what is at present done in the field, you will find that there is practically nothing done.

Chairman: Our point is that if this attraction had not been offered, even that work would not have been done.

Mr. Devadhar: The latest report of the Bombay Provincial Co-operative Bank shows:

> "Out of the funds raised by means of debentures two lakhs of rupees have been earmarked for advances to newly started co-operative land mortgage banks, two of which have already commenced to borrow from the bank."

So we really think it would for the present be a very suitable way.

Dr. Trip: But what is two lakhs?

Mr. Devadhar: If there be need for larger funds, certainly they would be forthcoming if Government were prepared to guarantee.

Dr. Trip: Of course, but we tried to make it a private enterprise. That is our aim. Are you satisfied if everything is done by Government in this country?

Chairman: It is not precisely that in this case. Your first proposition is that you recommend that Government should provide the whole of the share capital. Even from that point of view of Government, it may be a cheaper arrangement that it should simply guarantee the debentures, the

guarantee involving on it a nominal liability. So far as I know, in no case were Government asked to provide money to implement its nominal liability. In the other case, it is the direct liability to find the share capital. So from the Government point of view as a matter of fact, the present position may also be an easier position. At the same time, I for one quite see your point, which is that if there is to be any considerable development, then Government, instead of accepting its nominal liability, should accept a material liability by providing the share capital.

Dr. Trip: I think so.

Mr. Ramdas Pantulu: There is a good deal to be said for that.

Chairman: You do not object to the present arrangement, but you feel that for a more rapid development of these institutions what you recommend is the proper course.

Dr. Trip: Yes.

13th March 1931.

Mr. Devadhar: We have pointed out the difficulties with regard to the proposal that you have made that as far as possible we should absorb the moneylender with his money. You propose this in the interests of the agriculturist, and to enable him to get cheap money. Our view is that the best means of enabling him to get cheap credit is the organisation of the co-operative society. Therefore, would it not be better and more advantageous to push on the co-operative movement and not disturb the moneylender because we have not prevented him from putting his money into the movement as a deposit? In some places probably they may not have asked him to join, but he could have joined the co-operative society as a member and made himself useful. If at all we have to think of directing our effort and putting forth more energy into the field of co-operative work, would it not be better to try along the development of the movement and expand it rather than think of the ways and means of getting the moneylender's money?

Mr. McDougall: The two are not inconsistent at all. There is no reason why you should not drive on with the co-operative movement as it is at present, but at the same time make an endeavour to use the finance of the moneylender, as also his considerable experience. I believe it would be possible to secure his good will by making a friendly gesture towards him and his experience, together with his money, would be of enormous assistance.

Mr. Devadhar: You want him for double purposes *viz.*, for the sake of cheap money and also for the sake of the experience which he has gathered.

Mr. McDougall: If we can secure the services of the moneylender as Secretary of a society provided his psychology is such as would enable him to be used with confidence, his employment might be of great value to the primary society or even to the central bank.

Mr. Devadhar: Would not that be at the cost of the people who have yet to learn something of co-operative banking and co-operative finance? For instance, if we get an intelligent man in the village, who is able to read and write, to take up the work of the Secretary and do it under the guidance of a more competent person or the Government officer who visits the place very often, would it not be an advantage and a gain to the movement, than to get the moneylender for the purpose of doing the Secretary's work?

Mr. McDougall: If the moneylender becomes a member of the co-operative society, and invests his money in it, it will be in his own interest for him to take a direct interest in the affairs of the society. I do not suggest that the practice can be universal, but I suggest that an effort should be made, with sufficient safeguards, to get him in.

Mr. Devadhar: I presume you want us to take as much precaution as possible to avoid the impression which has been rightly or wrongly

created in certain quarters in the minds of the moneylenders that we look upon him as our enemy and not as an ally.

Mr. McDougall: That is the crux of the whole matter.

Mr. Devadhar: But I have told you, and you have recognized, that so far as my knowledge goes there is no policy like this, at any rate in my part of the country.

Mr. McDougall: You may not have made a direct attack on him as they have elsewhere, but have you made any attempt to find out if he is prepared to become a useful member of the society?

Mr. Devadhar: If at all we have committed any sin it is this: we have looked upon the moneylender as a middleman and if co-operation is to be properly worked, the element of competition has to be removed and there should be as few middlemen as possible. So it is sometimes asked whether we have done away with the need for the moneylender rather than the moneylender himself, not so much as one who has been a sort of money-grabber but as one who is a sort of middleman. So it is the middleman's position really that is attached and not his position as moneylender only, when he is charging usurious rates of interest; but I quite agree that for a movement like the co-operative movement, it would not really be right to antagonise any class of people, and especially a class that has rendered very good service in the past.

Mr. McDougall: I would go further than even use them in the primary societies. I would be prepared to have moneylenders of integrity and public spirit even on the central banks and the Provincial banks.

Mr. Devadhar: Even now there are 7 representatives on the Board of the Bombay Provincial Co-operative Bank who are representatives of the shareholders. In the strict sense they are not moneylenders no doubt, but they are all capitalists.

Mr. McDougall: Shareholders should be represented.

Mr. Devadhar: To that extent we have established good relationship between the co-operative movement and the capitalists. I might also say that the Directors on the Board of Management of the Poona Central Bank and some other central banks in the Bombay Presidency are also very substantial men.

Mr. McDougall: You are doing the right thing. There is, however, one point which I would mention in this connection and that is that I have found that there is apparently some antagonism in some parts of the country—it does not apply to Bombay—between the rural and the urban population. That is an unfortunate atmosphere.

Mr. Devadhar: To tell you frankly, that is an impression which we can easily gather by touring in the Punjab and I am saying this from my own personal experience gathered from a tour in the Punjab prior to the visit of the Royal Commission on Agriculture there. While travelling I had conversation with a fellow passenger of mine who happened to be an enlightened landlord. When I told him that I belonged to the Servants of India Society and that I was going to tour the Punjab to study the co-operative movement there, he asked me whether I was a Government servant. When I told him that I was not but that the Servants of India

Society comprised only of national workers for the service of the country, he asked me what I had to do with co-operation. He said that there was unfortunately nothing like a policy but that there was a feeling that there was a sharp division between the Rural and Urban problems in the Punjab even in the matter of policy for education. I do not think that there is that feeling in the other parts of India where we have begun to recognise day by day that the rural and urban problems go hand in hand and that the interests are common so far as the principles of the co-operative movement are concerned. Therefore, I would like to disabuse your mind of this impression.

Mr. McDougall: You confirm my impression. I cannot say whether it is so in other parts of the country in view of the extremely short visits that we were able to pay to other parts. However, if there is the impression that the co-operative movement is confining its efforts to the rural population it should be corrected.

Mr. Devadhar: I might add that it is the duty of officials and non-officials who are closely connected with the co-operative movement to remove such misapprehension wherever it exists, and to remove any antagonism between the rural and urban interests.

Mr. McDougall: I wonder whether such an impression does not exist in other provinces barring Madras and Bombay.

Mr. Devadhar: We cannot say about other parts of the country. Now coming to another point, may I ask if your impression is that so far as the present co-operative movement is concerned it has brought down the rate of interest? I think from the extract I read out to you you have realised the fact that the interest rate has been brought down to $9\frac{3}{4}$ per cent. per annum in our part of the country where it is considered to be the lowest and that it has had an indirect effect in lowering the rates of the moneylenders; and, therefore, if an effort has to be made, it should be done not in the direction of neglecting the good work that is being done now but if we by pushing on the co-operative movement could bring in the moneylender with his money and public spirit, then it is an advantageous thing.

Mr. McDougall: I entirely agree.

Ch. Mukhtar Singh: I am very glad to note Mr. McDougall that you have laid your hands upon the most important point in this connection. I feel that we should not try to minimise the difficulty but try to remove it if possible. Speaking for the United Provinces—I have no doubt about it—I know that even the highest officials used to address meetings pointing out the fact that the moneylender is taking an undue advantage of the position of the agriculturist and thus impoverishing him. And from the Punjab I get a small caste paper in which every week some songs are published the purport of which is nothing but antagonising the moneylender. When you speak of the moneylender I suppose you refer to agricultural moneylenders also; I also think that you will have more sympathy for the latter class.

Mr. McDougall: I do not make any difference between the two classes.

Ch. Mukhtar Singh: To my mind the whole position is that moneylending is a very paying proposition especially in the rural areas because agriculture is not a paying proposition and, therefore, you cannot avoid

people from resorting to this business. That being so, to my mind it seems quite improbable that these men will join the movement and become members.

Mr. McDougall: I am not quite prepared to accept that. If you get the moneylender to accept the idea that his money is quite safe at say 8 per cent. interest, I think this might prove to be a sufficient incentive for him to join the movement, instead of trying to get 24 per cent. or so in very risky ventures.

Ch. Mukhtar Singh: No doubt it may be 24 per cent. on paper but most of the provincial committees have said that their net earnings range from 6 to 10 per cent per annum on their capital outlay. My own view is that the moneylender will not be prepared to sacrifice his present income, by becoming a member of a co-operative society. I do not expect that he will join the movement until the whole position has been cleared and he is assured that no harm will be done to him by his so doing.

Mr. McDougall: I cannot lay down any hard and fast rule in these matters. It is all a question of the personnel and public spiritedness of the moneylenders.

Ch. Mukhtar Singh: The difficulty is that the present position of these societies—they being all unlimited liability concerns—will not be able to attract money-lenders to it because the latter will be loathe to join as they alone will be the chief financiers in these primary societies and if the society by some chance goes into liquidation, it is they who will suffer the most while the others may be mostly borrowers from the society.

Mr. McDougall: That may be true. You are not going to get a moneylender to start a co-operative society with his money.

Ch. Mukhtar Singh: Looking at the possible dangers of joining an unlimited liability concern, he will not join these societies; that is my point. Why should he agree to that position?

Mr. McDougall: He may or may not. Keep the door open.

Ch. Mukhtar Singh: I think he should not. That is my proposition.

Mr. Ramdas Pantulu: Apart from moneylenders, there are wealthy people who are now members of co-operative societies and who invest their funds in them in Madras and Bombay. They are not worried about the principle of unlimited liability.

Ch. Mukhtar Singh: I do not agree there, because we find from the provincial committees' reports that people do not join because of the existence of the principle of unlimited liability. It may be so in the case of a big cultivator who may become a member of a co-operative society because he feels that his fellow members are also members of the same family or fraternity as it were. This the moneylender will not do.

Mr. McDougall: That Indian gentleman who is of the moneylending class in the Punjab and whom I questioned told me that they would have no objection to becoming members of Co-operative societies.

Ch. Mukhtar Singh: Are you sure that this man was a member of any co-operative society?

Mr. McDougall: No, he is a Government servant.

Ch. Mukhtar Singh: Then that is only an expression of opinion.

Chairman: Mr. McDougall's point is: make an effort at bringing in these moneylenders and if they do not come in do not insist on their coming in.

Ch. Mukhtar Singh: My point is whether Mr. McDougall could suggest any other method by which this principle of unlimited liability could be removed.

Mr. McDougall: That is just the question which I am putting to myself.

Chairman: In fact if you do that it will immediately leave the door open for abuse about which you have heard. These moneylenders will try to take as much loan as possible and utilise the same for their own moneylending purposes.

Mr. McDougall: I would not give them any loan.

Chairman: Then do you expect them to invest their funds on fixed deposits as it were?

Mr. McDougall: I do not see why moneylenders should either require or get loans.

Dr. Friederich: I might say that I am not in favour of any such measure.

Chairman: My own view is that the moneylender, unless he is a philanthropist, would not come into this scheme. On a point of information—do these people in your part of the country deposit large sums of money in the central banks or the district banks?

Ch. Mukhtar Singh: They do in the central bank. On our side 15 per cent. is the interest that we charge and up to 8 per cent. we allow on deposits, so it is a very lucrative proposition.

Chairman: I do not understand; on your Central Bank you pay 8 per cent. Then what is the 15 per cent.?

Ch. Mukhtar Singh: We charge 15 per cent. from the members of the primary co-operative society.

Chairman: That is as far as the bank is concerned. I would like to know it from the point of view of the moneylender.

Ch. Mukhtar Singh: He becomes a depositor in the central bank because he gets 8 per cent. safe. Then there is no unlimited liability. He is the first creditor if the central bank goes into liquidation.

Chairman: The next point is: is he allowed to borrow money from the central bank?

Ch. Mukhtar Singh: No, he is only a depositor.

Chairman: So it is apparent, Mr. McDougall, that he is linked with the co-operative movement in that way. There is no objection to his drawing on a primary society on the same terms as an ordinary co-operator and there is no objection to his placing money in deposit with the central banks. I am told by Mr. Mukhtar Singh that in his part of

the country most of them do place their money in deposit with the central banks. It seems to me that any further efforts to bring him into a primary society on special terms, that is limited liability, that he should not be allowed to borrow money, etc., will not lead to any practical results. If you tell him that he will not be allowed to lend money in future you take away his livelihood.

Mr. McDougall: Had I not had conversations with these people—we also discussed this matter with Professor Chablani—I would have been inclined to agree with you entirely.

Chairman: It is for that very reason I am trying to find out what the position in each province is. The position is bound to vary in this matter. Mr. Mukhtar Singh who is connected with co-operation in the U. P. is a farmer. I believe some of his brothers and cousins actually till the land, and therefore he knows a good deal of this subject in regard to the part from which he comes. Therefore I allowed him to begin and you must admit we have had some very interesting information from him.

Ch. Mukhtar Singh: There is another objection. You say that the rate of interest given to the moneylender should be the same as charged by the central bank. That means you want to give him a certain better position than the depositor because the central bank wants to make some money out of him. But in this case he is not a depositor, he is much more than a depositor.

Mr. McDougall: He joins a society; where he has unlimited liabilities he gets a higher rate of interest. With the Central Bank his liabilities are limited but he gets less interest.

Ch. Mukhtar Singh: No his liabilities will be limited.

Mr. McDougall: Yes.

Ch. Mukhtar Singh: In that case is it not a sort of discrimination? The depositors may be from the primary societies. After all their rate of interest would be much lower.

Mr. McDougall: The depositors might for obvious reasons prefer to lend the money to the central society at less interest than to the primary society.

Ch. Mukhtar Singh: Suppose there are a number of members in the co-operative society who want to deposit their money and there is also a moneylender who wants to join the co-operative movement. The moneylender gets the rate of interest at which the members get money from the central bank, while all the other members who are not moneylenders get a rate of interest which is much less. Will that not be creating a discrimination amongst the members of the co-operative unions? If you ask the moneylender to join the central bank then the same objection is there. How will you meet that objection?

Mr. McDougall: What objection is there to taking money from the moneylender for the central bank? They are taking it at the present moment.

Ch. Mukhtar Singh: I am not speaking of whether he is making deposits, in the central bank or not. My point is that you say the rate of interest on the money given should be the same as on the money advanced to the

members of the co-operative society by the central bank. If he joins the primary society and there are members of the primary society who want to keep their money in deposit with the central bank, in their case the rate of interest will be much lower than the rate of interest allowed to the moneylender.

Mr. McDougall: If members of the primary societies decide to give their money to the Central Bank, well, that is their business.

Chairman: Mr. Mukhtar Singh's point is this. I do not know whether he has correctly appreciated your ideas, but he says that as he reads your ideas they are that if one of these moneylenders is persuaded to keep his money in a primary society, he should be given a rate of interest, on money so deposited, which will be higher than that given to other co-operators who deposit their money with the primary society. Is that your proposition?

Mr. McDougall: I think Dr. Friederich's idea with regard to the deposits in the primary society was that the lender in the primary society should actually receive more money for his loan than the depositor in the central society.

Chairman: We are not on that point. We discussed that fully and we came to the conclusion that the effect of that would be to raise the lending rate of the primary society.

Mr. McDougall: There is a good deal of truth in it.

Chairman: I really do not see from where Mr. Mukhtar Singh has got this particular point, but still it is a point. He understood your scheme to mean that you intended that a moneylender who joins a primary society and deposits money with the primary society should be allowed on his deposits a higher rate of interest than will be given to other co-operators who deposit money with the primary society.

Mr. McDougall: I have not said that.

Chairman: Well that ends it.

Ch. Mukhtar Singh: Then you will give him the same amount of interest as that at which deposits are taken from other people? If it is so the rate of interest will be very low and the moneylender will not find it attractive to join.

Mr. McDougall: What is the average rate of interest?

Ch. Mukhtar Singh: About 8 per cent.

Chairman: Let us confine ourselves to the U. P.

Ch. Mukhtar Singh: But this scheme will be followed everywhere.

Chairman: That is so. As it is, Mr. Ramdas Pantulu and Mr. Devadhar have discussed it from the point of view of their provinces. Let us confine it to your province so that we will be able to collect all difficulties. The rate of interest is your part of the country is 6 to 8 per cent. Will a moneylender be satisfied with these rates?

Mr. McDougall: He might accept 8 per cent.

Chairman: But not on the unlimited liability basis?

Ch. Mukhtar Singh: No, because he is a depositor. In the primary society he will never do it.

Dr. Friederich: That is a necessity for promary societies.

Chairman: That is another matter.

Mr. McDougall: What is the average payment your primary societies make to your central bank?

Mr. Ramdas Pantulu: 7 to 7½ per cent.

Ch. Mukhtar Singh: Any recognised moneylender investing to the extent of Rs. 1,000 or over in a primary society shall be given the same rate of interest as the society pays on advance from its central bank.

Dr. Friederich: I am not for giving a special rate of interest to a money-lender. I think that would be non-co-operative. Everybody must be dealt with equally. I thought in this respect that the policy recommended by me would be followed, to raise the deposit rate, because if we want the money-lender in the co-operative system we must touch his purse and when he sees a profit in joining the co-operative movement then he will join.

Mr. McDougall: Might I ask what Mr. Ramdas Pantulu would have to say to starting this idea with regard to the money-lender in the non-agricultural societies where I understand the position is limited?

Mr. Ramdas Pantulu: Urban banks in small villages catch a number of agriculturists as members. It is only an unlimited liability.

Chairman: If the rate of interest is the same as that allowed to other members of this limited liability—it may be urban or may be rural societies—is there any objection?

Mr. Ramdas Pantulu: But generally speaking the rules of the society do not permit of any discrimination in deposits. Generally it does not vary with the man.

Ch. Mukhtar Singh: Everyone is treated on his merits, not because he is a money-lender.

Mr. Devadhar: Supposing the money-lender does not happen to be a local man and the department has found it necessary to issue instructions not to receive deposits from other societies?

Mr. McDougall: I can imagine him joining a central bank from any other district, but I cannot imagaine a money-lender joining a primary society unless he is in direct contact with the district.

Chairman: There is a Bihar case which referred to itinerary money-lenders who came from another district, joined the co-operative society in the district where they resided temporarily. Having done so they took the money away and went back to their own district or to a third district and there began carrying on money-lending operations at very high rates of interest. Therefore it is not correct to say it is beyond imagination.

Mr. McDougall: Had such an example not been given me I should say it is beyond imagination because it shows very great mismanagement on the part of the members of the society.

Chairman: My colleagues are pointing out to you practical difficulties. You have already said that you do not want to press this in any province or even in any locality where it is not a practical proposition. You simply threw it out as a suggestion for bringing within the movement a class of people who if they submitted to become co-operators might be useful. But

the practical difficulty to which Mr. Mukhtar Singh referred is a real difficulty. It would be impossible to make any discrimination in one and the same society in regard to the rate of interest and deposits of unlimited liability.

Ch. Mukhtar Singh: There is another question, as to whether the money-lender is hated he will not like to join, but the restrictions you have suggested, I think, show that the man will not be treated on the same basis.

Mr. McDougall: I cannot see the point of this at all. A money-lender must obviously be a man who has money to lend. If he has money to lend then there is no object, excepting an ulterior one, in his securing money from the society.

Ch. Mukhtar Singh: But he has to lend money and to make as much profit out of it as possible. That being so the society does not give enough money in return.

Mr. McDougall: Obviously it would never do for the society to give him money to lend to other people.

Chairman: How are you going to give effect to a measure like this? That is, is the money-lender himself to come and tell the society I have taken this money from people who have got the money out of the co-operative society? How is this provision going to be enforced. Apart from Mr. Mukhtar Singh's difficulty I see great practical difficulties. It is as if you ask an offender to come and disclose the offence. Otherwise what may happen is this, a co-operator at present is a member of that primary society. Having got the money from the society and after handing it over to the money-lender he goes to the society that is the authorities, and tells them that he has done this. Well the position in every case, to my mind, leads to results which I for one am not willing to tolerate.

Ch. Mukhtar Singh: There is a third objection—suppose he provides all the money of the primary society?

Chairman: Then it becomes his society probably.

Mr. McDougall: Have these societies not been registered? If so, would the authorities tolerate the registration of a society of a money-lender?

Ch. Mukhtar Singh: Whatever money is needed for that society he provides. There is no question of registration, it has already been registered.

Chairman: Of course it might be met by placing an open limit to his deposit. It is a real difficulty.

Ch. Mukhtar Singh: When you are asking him not to do the money-lending, then you cannot put a limit. Mr. McDougall contemplates this: It is probable that his capital will provide all the necessary funds required to finance the movement.

Mr. McDougall: I am not referring to the individual money-lender there; I am referring to the collective amounts produced. That is a very different story.

Ch. Mukhtar Singh: There is the possibility of his monopolising the whole thing.

Mr. McDougall: If that probability arises it certainly would have a very serious effect. But even so is it possible? The co-operative society after all is managed by the managers of the society.

Ch. Mukhtar Singh: The co-operative society is managed by the Panchayat. They are people of ordinary qualifications; they are not people who can think of things very intelligently.

Chairman: I think you have brought out some very substantial difficulties.

Ch. Mukhtar Singh: I have not pointed out these difficulties with the idea that there should be no scheme. If you can find some workable scheme we shall be much obliged, because I think if these people can be brought into the co-operative movement it would be good because the credit part will remain in the hands of those very people who are doing it.

Seth Haji Abdoola Haroon: I know something about the money-lenders and I read both the documents and I find it is very difficult, especially in Sind, that these money-lenders should co-operate with the co-operative societies. These money-lenders lend money on two terms to the cultivators. Firstly they lend money to zemindars on the system of mortgaging land, and they even lend money to cultivators who have no property but they lend it on the forthcoming crop and so on. These money-lenders have small huttis to provide these cultivators with things like sugar and grain. When first the cultivator went to him he commenced to take for his daily food and piece goods and money lender commenced to write down his name to that account . . . . These cultivators are working with zamindars on batai system (sharing the produce in kind). When they get their share from the zamindars the money lender takes it away and gives them credit, not for the full market value of the produce, but for a less amount; *i.e.*, if the market rate is Rs. 2-8-0 they are given a credit of Rs. 2. I cannot understand how the money-lender can be associated with the co-operative movement. There are some big money-lenders, but there are many with small capital, Rs. 2,000, or Rs. 3,000. They advance small loans of Rs. 50, or Rs. 30, and supposing such loans are taken over by a co-operative society how can it recover the loans unless there is a good harvest, and ordinarily a society will not lend money to a cultivator who has no security to offer.

Mr. McDougall: The money-lender's rate of interest would at least be restricted even in the parts you are referring to.

Seth Haji Abdoola Haroon: Take it that the money-lender joins a society. He has ten to fifteen cultivators who owe him, say, Rs. 50 or Rs. 100 each. The society has not only to take up these loans, but has also to lend money again. These cultivators have only their share of the crop, and the societies do not lend money except on the security of landed property. I do not know how the cultivators can get credit from these societies; if the *bania* joins a society he cannot give loans, and if he remains out he might refuse to lend to members.

Chairman: In that part of the country from which Haji Sahib comes *haris* who are landless ryots cannot offer any security in the form of land. They are people who work for a landlord and get a share of the produce. These ryots get loans from the money-lender on the security of the produce which they will get from their landlords. If your scheme were introduced in that part of the country the money-lender comes within the co-operative

movement. Thereafter he is debarred from making advances to the ryot. And the ryot cannot go again to the society and ask for a loan and will be left without any means of credit. Haji Sahib is tackling it from the point of view of the ryot.

Mr. McDougall: I see his point now. It is a very difficult one.

Mr. Ramdas Pantulu: There is this information in the Bombay report. 'We solved the problem partially by making the loans of the co-operative society the first charge on the produce, not the landlord's share.. The society lends money for raising the crop and it can recoup it'. That is the development in Bombay. It applies to Sind also.

Chairman: Does the arrangement apply to Sind? I do not think all Bombay arrangements apply entirely to Sind. There are other difficulties. How is the co-operative society to make effective that loan on the crop: this again depends on other considerations and is connected with the revenue administration. Though Bombay Government have found it possible to introduce it in the Bombay Presidency there may be practical difficulties in introducing it in Sind.

Mr. Devadhar: (Read section 24). Next to Government claim comes the claim of the society.

Chairman: A *hari* is a sort of a day-labourer. He does not own the crop. He only gets a share of it for his labour. I have a recollection that the Bombay Committee specifically mentions the case of the *hari*.

Mr. Devadhar: They are not day-labourers: they are tenants, and their share is fixed either by custom or by agreement. There are certain first charges on the produce such as land revenue, and after these are paid the produce is shared between the tenant and the proprietor, who before he takes away his share, has also to pay certain customary dues to work people or labourers in the village.

Mr. McDougall: Is it possible to secure a mortgage on the crop in such a case?

Lala Harkishen Lal: That is provided in the Bombay Act.

Chairman: The problem of financing the *hari* bristles with difficulties. The zamindar is usually not in a position to finance him as he has himself to borrow. The sowcar gives the *hari* a loan on his share of the crop and charges an exorbitant rate of interest. The result is that whatever crop remains with the *hari*, after the zamindar has received his share, is generally taken away by the sowcar for the payment of his debt. The *hari* then has to borrow again for his maintenance, till the next harvest, and the same process is repeated. Co-operative societies have been admitting the *hari* as member and have lost, in some cases by the *hari* running away from his master, in others by the surety being unable to pay, and so on.

Mr. McDougall: I agree. It is very difficult.

Lala Harkishen Lal: It is not so hopeless. The Bombay Committee say it is difficult. If there were not difficulties in the way of financing the people in the villages, the co-operative movement would not have been started. To solve these difficulties Mr. McDougall's one wise solution is to bring the money-lender into the co-operative movement. The *hari*

lives on his income in advance because he has to give away practically his whole crop to the money-lender and to borrow again from the same man. If he is a year in advance some method has to be found by which he would not be in advance of the crop but follow it. By decreasing the rate of interest, by regulating the amount lent to him, he might be left, at the end of the first year, with say 20 per cent. of his produce and would have to borrow only 80 per cent. Next year with the help of the co-operative movement and with the money-lenders' efforts he can save 40 per cent. and then he has to borrow only 60 per cent. for the coming year. In 5 years he can thus clear off his debt. I am only putting a hypothetical case by way of explanation. In 5 years he will come from one end of the borrowing to the other end of it. Then he gradually borrows less till at last he is able to follow the crop. That is the kind of thing that we have to consider. If you can bring the money-lender, the official, and others, to help the poor agriculturist, I think it is worth while considering. I take it this is what has really passed in Mr. McDougall's mind, may not be in exactly the way I have put it.

Chairman: Haji Sahib's point was this. If you now take away the money-lender, the co-operative society cannot lend money to the *hari* because he cannot produce security. If, as McDougall proposes, you take the money-lender into the movement, you create a void which makes it more difficult for the *hari* to get any credit at all. We leave it there.

Lala Harkishen Lal: Don't leave it there because nothing is impossible, especially in social matters, and in economic matters: with intelligence and an effort to grapple with problems they can be solved.

Chairman: There are the theoretical and practical aspects. From the practical point of view it is dealt with in the Bombay report which says how it can be done. But Haji Sahib's point is if you withdraw the money-lender you create a void.

Lala Harkishen Lal: Mr. McDougall should be prepared to modify his ideas on the information supplied by us.

Mr. McDougall: I am quite prepared to do so.

Seth Haji Abdoola Haroon: Nobody can praise these money-lenders. But I must say that when the crop fails a money-lender will not only not recover his debt, but will advance again to the *hari*. He of course charges a very heavy rate of interest, but he helps sometimes.

Lala Harkishen Lal: Otherwise he will lose.

Chairman: Apparently the beneficial aspect comes in this way. The money-lender looks up to the *hari* as his property out of which he can make something. Therefore he is interested in keeping his property alive, so that later on he might again milch the cow.

Mr. Jadu Nath Roy: I find from a statement here that the money-lender has in the past fulfilled a very useful purpose. But in Bengal my information is that the money-lender is still rendering very useful help not only to agriculturists but to trade generally. He still finances the jute and rice business especially of Indian merchants who do not get much help from the Imperial Bank or other banks. I believe that you have not discussed all these points with any indigenous money-lender in Bengal.

Mr. McDougall: I never had any opportunity.

Mr. Jadu Nath Roy: The co-operative societies in Bengal charge interest from 12 to 15 per cent. I do not know what they charge in Bombay or Madras.

Mr. Ramdas Pantulu: In Madras 9 to 9-3/8 per cent.

Mr. Jadu Nath Roy: In Bengal the money-lender also charges the agriculturist 12 to 15 per cent. and I believe they should be allowed to do the business without joining the co-operative movement because they will be lending money at competitive rates and thus bring down the rates.

Chairman: According to the Bengal Committee, loans to agriculturists given on the security of their holdings generally bear interest from 18¾ to 37½ per cent.

Mr. McDougall: There will be a good many money-lenders left for a period of years. But the general trend is towards amalgamations of one kind or another. In the majority of countries banks have gone through that experience. It is not very long since in England the small family banks were absorbed by bigger banks, and whether for good or for evil we are passing through that phase: amalgamations are taking place, centralisation is going on, and the money-lender sooner or later must occupy a different place. I am not out to kill him, but I am out to make him a much useful part of the social and economic organisation of the country. Co-operation is organisation. However unorganised it may be, it is tending towards better organisation.

Chairman: Is it not the custom in Bengal to charge interest at the rate of one pice or two pice per rupee per month.

Mr. Jadu Nath Roy: These are exceptional cases.

Chairman: The villager does not understand so much per cent. It is generally one pice or two pice per rupee per month.

Mr. Jadu Nath Roy: Now there is so much competition in Bengal that rates are 12 to 15 per cent.

Chairman: The Bengal Committee examined the position, and they give rates district by district. What you are referring to is the operation of big money-lenders like yourself.

Mr. Jadu Nath Roy: In the case of small loans of money-lenders who have a few thousand rupees it might be the case. I do not see any inducement for money-lenders to join the co-operative movement on the terms you have started. One with ten lakhs of rupees will not be satisfied with 5 per cent. which the co-operative society will give him, while other persons are gaining. The Imperial Bank is making 15 per cent. It is pure philanthropy, if he joins the co-operative movement on these terms.

Mr. McDougall: All this information is contrary to what has been explained to me in certain parts of the country: that information may be right or entirely wrong, I cannot say.

Mr. Jadu Nath Roy: My idea is every one who has got money, whether he is a service holder or a zamindar or a professional money-lender, should be allowed to lend money. That will bring down rates. These societies get money from Government.

Chairman: No.

Mr. Jadu Nath Roy: At least they do not pay super-tax: they are in a way helped.

Lala Harkishen Lal: My way of thinking is exactly like your way of thinking. There is a source of wealth, money and experience, and there is

the big co-operative movement to help the people, and your idea is, if possible, to take advantage of the storehouse of the money-lender and to put it at the service of the agriculturist—whether on the terms you have proposed or on different terms, that might be settled locally and from place to place.

Mr. McDougall: That is so: if more practicable terms can be arranged no one will be pleased more than myself.

Lala Harkishen Lal: You do not claim that this is the only method.

Mr. McDougall: No.

Lala Harkishen Lal: That can be adopted or modified according to time and place.

Mr. McDougall: That is so.

Lala Harkishen Lal: You also have in view that the discussion on the money-lender's question has been from the point of view of credit societies. There has not been a word said about the other activities the co-operative movement has to grapple with. Supposing for the sake of argument that your scheme is not workable so far as credit societies are concerned, there is no reason why your scheme and ideas should not be considered from the point of view of what they call better living societies, saving societies, and—agricultural improvement societies. Surely you think that he cannot become useful by joining the co-operative credit society because competition would disappear. As soon as the co-operative society changes from a credit society into some other society this difficulty will disappear.

Chairman: I do not see how it meets Mr. McDougall's point. If they are going to be allowed to join non-credit societies, all the objections you have heard disappear, but I do not see how they fit in the picture?

Lala Harkishen Lal: I was saying that the money-lender ought not to be turned out of the village because he is the most undesirable person. That is the point from which I started. It will be admitted by you as well as by others that the money-lender may not have been at the present time thought to be a helpful person in credit societies, but that is no reason why he should not be considered as a help in several other ways.

Mr. McDougall: No reason at all, if he could be made use of.

Lala Harkishen Lal: You know that the co-operative field has to cover a much larger field in India than it occupies at present in both intensity as well as extensiveness.

Mr. McDougall: I have tried to make that clear.

Lala Harkishen Lal: The co-operative movement has only touched the fringe in extension, and in depth it has not even scratched the ground. That is my reading of the co-operative situation at present in India.

Mr. McDougall: That is so, most assuredly.

Lala Harkishen Lal: We are just starting as it were. Turning round to the money-lenders and to your suggestions, I do not know whether you have realised that this form of money-lending is not very ancient in villages.

Mr. McDougall: No, I have not.

Lala Harkishen Lal: This form really started in the present form when the cash dealings came into the country, *i.e.*, during very nearly the British times. Otherwise all transactions in villages, even in my younger days, were

in kind. The money-lending was not money-lending then; the money-lender was really the lender of food, the lender of seed, the lender of cloth and so on. If you take so much, you give him so much wheat. If a person took a certain quantity of cloth during marriage time or at any other time, the agreement was that for 10 yards of cloth he had to give 2 or 3 maunds of wheat, gram, barley, etc. At the seed time it is also agreed that he gives you seed, for one unit he will give you one unit and a quarter more or a quarter less according to the place, the man and the need. When cash began to circulate, the hereditary system of calculation disappeared from the agriculturist; the agriculturist was slow to grasp the rates. He knew certain rates that were ancestral, but when the new rates came he could not understand whether a pice a rupee was the same thing as he was paying before or less; he did not know what exactly the effect on the village life would be and what the effect on his succeeding generations would be. The money-lender took advantage of this and began to calculate in a way which was not familiar to other persons, and the system gradually grew up until it came to 18 to 37 per cent. It might be news to you that the money-lender is a foreigner in certain tracts of the land in India. He is either a Marwari who has not really a fixed residence or a Kabuli. He introduces himself into a new tract. The Kabuli comes from Afghanistan. He goes to places where people do not know even as much as the agriculturist. He says 'I will charge 5 per cent. per month' and for the life of them these people do not know that 12×5 equals 60. There is no competition and he gets written documents from these people. He goes and comes back the next year to recover his money. The Marwari is bad enough, but he is not so bad as the Kabuli. That is how the system has grown. Naturally the remedy would have been education which would make men intelligent enough for the standard of life in which we have been brought up by new economic forces, mostly cash payments. Another factor which has come into village life and town life is the sale of ready made goods. It makes things very difficult for the people because 50 years ago, and less than 50 years ago in some places, they lived on goods made locally for which the price was not paid in cash but in kind. Now the result of the ready made goods that really flood the country is that the worker in the village has gone out of employment and has to pay in cash. He has not developed the same resources for disposal of his products as the man who sells his goods. Sometimes he is the money lender himself, sometimes there is another party. The result is that he is ground between two millstones, the millstone of the ready-made goods and the millstone of the cash payments. This is the way he has been brought down to this position, not by machination. I think it is by natural growth or natural change that new forces come into play and new situations arise. Money-lendring has now assumed a shape which is to the disadvantage of the agriculturist and what we have to do is to grasp the problem and solve it. From my experience of village life and village supervision—I know a great deal about the money-lender and the agriculturist—the co-operative movement and the credit societies have taken the money-lender as an evil genius and think he ought to be treated in the same way as witches and elements of that kind were treated in ancient times. The witchcraft has disappeared by growth of wisdom and growth of knowledge. Similarly this will also disappear with the the growth of wisdom and the growth of knowledge, but at the same time things have to be thought out, developed and considered. After what I have told you, do you not think that we, along with the Government, should try to solve this problem? To some extent we have solved

already this problem of heavy indebtedness by reducing it by means of co-operation. As it is, even now you and Dr. Friederich differ in certain matters; you differ because your experiences are different and because both of you know co-operation from two different countries, and in the two countries about which you speak, things have not been solved in the same fashion and to the same extent. Therefore neither should you think that your experience of England nor should Dr. Friederich think that his experience of Germany is to apply to India.

Mr. McDougall: Not necessarily.

Lala Harkishen Lal: Therefore all you have to do is to give us your suggestions as to the factors we might consider, and from those factors we should adopt those which we consider very good, reject those which we consider are no good, and bring out something else from our own brain. That is the position you take up?

Mr. McDougall: Entirely so.

Lala Harkishen Lal: You said that the money-lender's experience would be useful. Have you considered that the money-lender's experience would be very useful in marketing? That is one of the very big problems we have before us.

Mr. McDougall: Yes, he would be useful.

Lala Harkishen Lal: He would be more useful there than in co-operative credit societies.

Mr. McDougall: It is not inconceivable.

Lala Harkishen Lal: It is not inconceivable either that in the village itself he might be useful also.

Mr. McDougall: It is quite conceivable.

Lala Harkishen Lal: He cannot be useful in co-operative credit societies to the same extent, that is also conceivable?

Mr. McDougall: That is a matter of opinion and I should not like to commit myself on that.

Lala Harkishen Lal: But do you not think that the bye-laws that we have provided in the various provinces and the bye-laws that are common and general in India have been conceived from the point of view that the source of money supply is something other than the money-lender?

Mr. McDougall: Yes, may be

Lala Harkishen Lal: So far as the bye-laws go, the money-lender was kept out of view in devising them and devising the sources of money, etc. If we now took the money-lender into our consideration as a useful aid to our credit societies, do you not think that bye-laws and schemes could be devised so as to keep his evil part out and his good part in?

Mr. McDougall: I have seen no reason why that should not be the case. If these proposals of mine, after being submitted to the collective experience of the gentlemen around this table, are found to contain holes which render them impossible to work, I suggest that it is for you with your experience to find out some other better way, but the basic principle of making use of the experience and the finances of the money-lenders should be carefully considered.

Dr. Friederich: I am of opinion that the problem with regard to the money-lender is one of the most important problems. We have to distinguish between the different kinds of money-lenders. For instance, we have agriculturists who do money-lending business. The solution for this problem would be better banking facilities to tenants. If the tenants get better banking facilities, they can get rid of the money-lending business of the landowner. Secondly, there is the trader and dealer who is money-lender at the same time. It is my opinion that they do not do pure money-lending business, *i.e.*, that money is not given in cash, but very often it is given in goods. Now we cannot solve this problem by the recipe referred to in Mr. McDougall's paper; this problem can in my opinion only be solved by organising supply of agricultural requirements, so that this kind of money-lender can be brought out of this business. Thirdly comes the case of the money-lender who gives in cash. Here the sound solution would be creating better banking facilities, that is to say creating a more efficient co-operative system in the country. The co-operative system, formation of supply societies and marketing arrangements will solve the problem best. This problem is no simple problem. It is very complicated with regard to these various factors and with regard to the various kinds of money-lenders. We cannot solve it by a simple measure, but only by a unified policy with regard to the various kinds of money-lenders. That is my personal view. I quite agree and fully recognize all the considerations given by Mr. McDougall. In case we get the money-lender, we must see that we get him as a lamb and not as a wolf into the herds of co-operators. In case we get him as a wolf, we shall be doing more damage to the cause than advantage. I cannot give you a universal prescription as to how to do it, but the money-lending should be gradually avoided. I think it could be done by creating an efficient co-operative system.

Mr. Devadhar: I shall read to you a passage from this book on "Co-operation in Bombay" by Hiralal Lalubhai Kaji:

> "The elimination of the middlemen is one of the great objects of the co-operative movement. This elimination, it proposes to bring about by the consumers themselves or the producers performing the necessary services. Elimination by absorption is the idea; not elimination by reverting to the early days, when the producer and the consumer were in direct touch individually".

This is the latest view held with regard to money-lenders.

Mr. McDougall: It is a very sound view.

Chairman: Before we commence this afternoon's proceedings, on behalf of the Committee and my own behalf I should like to express our thanks to Sir T. Vijiaraghavachariar for having come over this afternoon to take part in our discussion. I have to mention another point before I begin the proceedings. You will remember we were told in August last by Sir George Schuster that owing to the importance of the problem of Rural Finance he would get a man who had special experience in co-operative marketing methods to guide us in our deliberations so that we could take advice from him in connection with our work coming under the terms of reference. We then thought that the Experts will advise us on Co-operative marketing. We then accepted Sir George Schuster's suggestion. I

am sorry to say that the papers which we have got before us do not contain much which would help us with regard to co-operative marketing. There is no doubt a good deal there about marketing in general and agriculture in general, but it seems to me that they are all outside our purview. May I ask Mr. McDougall, when you were invited by the India Office whether you were told that you had to advise us on Co-operative marketing in general?

Mr. McDougall: When I was invited by the India Office I was in general terms asked to assist the Banking Enquiry Committee. I am not prepared to commit myself further.

Ch. Mukhtar Singh: I consider that Mr. McDougall is within his rights to invite our attention to all the important points because, in my opinion, they all comprise and come under our terms of reference. All the points are contained there.

Chairman: What are the points?

Ch. Mukhtar Singh: Ownership, land tenure, education, marketing and finance and so on.

Chairman: Are they included in the terms of reference?

Ch. Mukhtar Singh: These are all matters that have been discussed by the various provincial committees. The terms of reference include:

> "The development of banking with a view to the expansion of indigenous, co-operative and joint stock banking with special reference to the needs of agriculture, commerce and industry".

The first point is what are the needs of agriculture? When we know the needs then certainly we can devise the remedy. Then again in paragraph 4 it is laid down that "It will be the duty of the Central Committee to examine the material contained in these reports besides investigating any heads of enquiry which are not specially referred to the Provincial Committees". That shows that we will have to deal with matters not dealt with by the provincial committees. That is another point from which I am led to think that Mr. McDougall is right. The third point is that it is impossible to suggest the remedy unless he knows what the position of the agriculturist is, what his financial difficulties are, whether he is able to repay his debt, whether he is able to offer any surety; these are relevant questions which we have to consider from the banking point of view. Therefore, I feel that not only all these points have been touched upon here but I feel that I am very grateful to him and I hope you will allow me to discuss these things with him thoroughly to enable us to understand the real difficulties.

Mr. Ramdas Pantulu: The information we received from the Finance Department which was circulated to us by you (Chairman) was that the foreign experts are coming here to assist the Indian Central Banking Enquiry Committee in their work. I have not found any statement in that note about the limitations of the advice or the consultation that we are going to have with them on any particular matter. We have collected a good deal of information from all these gentlemen (experts) and I should consider that it is extremely difficult to deal only with co-operative marketing without dealing for instance, with organisation of marketing, finance of marketing and so on. Then the co-operative sale society which is formed for the sale of products of its members will have to rely upon the

regulation of markets, upon transport and other facilities, upon railway rates and so on. That being so I do not know how it is fair to ask Mr. McDougall to disentangle himself from marketing and confine himself to co-operative marketing. Speaking for myself I cannot say that I will be able to do that.

Chairman: I am simply trying to clear the position. If you want to traverse the whole ground covered by the Royal Commission on Agriculture then you will have to do likewise with regard to Industries as well. The terms of reference are very explicit. We are not here to suggest ways and means about the improvements of agriculture or of the improvements in marketing. It is only with regard to the financing stage that our Committee comes in. I may in this connection refer to a precedent which I notice from a book which Mr. Mukhtar Singh has placed in my hands. In England when they appointed a similar Committee, that Committee dealt with only the position of credit and not the position of agriculture. And it is particularly from that point of view that I wanted to clear up the position. Whether this comes under the terms of reference or not is a matter which is for me to decide. If anybody wants to say that it is our function to examine the whole problem connected with agriculture in India including land tenures, questions of crop productions and so on, I should say it is distinctly outside our purview.

Mr. Ramdas Pantulu: This afternoon we have met specially to discuss Marketing and I think Sir T. Vijiaraghavachariar is here to help us in arriving at our decisions on that question. I did not contemplate that we were going to discuss the whole scope of rural finance this afternoon. When dealing with marketing, for instance, I think it would be better for us to consider also points like transport facilities, railway rates and so on, because these are questions which are intimately connected with solving the problem of marketing finance.

Chairman: Do you seriously mean to suggest that this Committee is empowered to examine the question of railway rates and so on?

Mr. Ramdas Pantulu: We can go into the question and say something about it.

Chairman: I should say that it is more than we can do. For instance you may ask for a change in the personal laws of the country, like the *Mitakshara law* and so on. We have already discussed that subject and we decided that these subjects are not within our purview. We can simply refer to such matters if necessary without going into details.

Mr. Ramdas Pantulu: I am not asking you to go into the question but we have got to say that these elements enter into the question of marketing. We can certainly refer to them without going into details. Mr. McDougall's paper covers all problems of marketing without going into details. After all the co-operative movement has touched only about 6 per cent. of the population of this country and the co-operative marketing has touched only a very microscopic part of the marketing itself. If we can get the ideas of Mr. McDougall on this point we do not like to throw astray the opportunities which Mr. McDougall has placed before us in his paper which is a very valuable document.

Chairman: I was simply trying to clarify the issues. Having got this information from Sir George Schuster which we have already discussed in Committee before, I was trying to find out what Mr. McDougall's position was because that will have to be carefully considered later on.

Ch. Mukhtar Singh: Mr. McDougall has clearly pointed out that whether the *Zamindari* system exists he does not advocate the introduction of the co-operative movement. That is a special recommendation. I might say, that things are so wound up with one another and although it may not be possible to go into the details we cannot absolutely push them altogether out of consideration. I feel it, however, to be an impossible task not to look upon the main factors because the cultivator's economic condition is so wound up.

Chairman: We are not a Committee of Economic Enquiry. The two things can be clearly separated. In fact I pointed out to you what happened in connection with Committee on Rural Credits in England.

Ch. Mukhtar Singh: If I may point out, the facts were that the whole position had been previously cleared up for them and so they had not to go into the same groove again. I mean to say, there was the Agricultural Tribunal's investigation report before them.

Chairman: So we have before us the findings of the Royal Commission on Agriculture.

Ch. Mukhtar Singh: My view is that unless you go into the whole question of the economic relation and position of the cultivator it is quite impossible to decide anything about these matters. Secondly, I wish to point out that the Government of India have clearly stated in the terms of reference in paragraph (4) that it is the *duty* of this Committee to enquire into details which have not been specifically referred to the Provincial Committees for enquiry. From my point of view the question cannot be discussed unless the economic position of the cultivator is discussed. If we had known that this was your ruling in the matter I would not have taken the trouble of going through much of the details.

Chairman: I understand your point of view and I might tell you that eventually the ruling rests with me to decide whether the terms of reference will cover all this.

Ch. Mukhtar Singh: I do not dispute your right of ruling.

Chairman: We shall now discuss some relevant portions in Mr. McDougall's paper on "Land and the Cultivator" and then deal with the paper on "Marketing". Now, Mr. McDougall, may I ask whether your idea is to increase the production in the land?

Mr. McDougall: That is the idea.

Chairman: You are probably aware that in America as a result of an year's examination of the subject they have come to the conclusion that it is in the best interests of the cultivator to grow less and get more. Do you subscribe to that view?

Mr. McDougall: If you are going to suggest that the whole world should grow less at such a time as this, I am inclined to subscribe to it provided it is done by International agreement.

Chairman: If other parts of the world wanted to grow less and to get more then your advice to India would be also to grow less and get more.

Mr. McDougall: If the whole world subscribed to growing less then the economic position of the world would be distinctly better, but if India is to grow less and the other countries were to grow more than India is bound to suffer, because if India grew less other countries would reap the benefit.

Chairman: I take it that you have read all the literature on the subject, that is where they discussed this aspect of it. I shall only read you, for your information and the information of your colleagues, certain passages of their papers: "It is our considered judgment that there is just one way that the American farmer can hope to get a profitable price for his wheat and that is for production in this country to be adjusted downward so that it will not exceed the domestic requirements. That is necessary if tariff protection is to be effective. Once this is done, increased production elsewhere in the world will make no difference to producers but can be relied upon to afford them whatever protection may be required for them to maintain their place with other commodities in this country." The position is this: if any country wants to produce say a certain quantity for export and increase that quantity, it must compete in the markets of the world in regard to that commodity, and it will have to compete against the available surplus of other countries. Do you realise that in this matter conditions in India are the same as conditions in America? Why did they say in America that it was not possible for them to compete in the world's markets with either Canada or Australia? They referred to the fact that these countries have not got to transport their grain over large tracts of railway before they reach the ports.

Mr. McDougall: But Canada has got to do it. Do you suggest that the Canadian grain is at the port?

Chairman: Is it not transported by river mostly?

Mr. McDougall: Most decidedly not. How many miles is Manitoba from British Columbia or from the Great Lakes; how much Canadian wheat comes down into Montreal, and on this new line that they have opened to the Hudson Bay?

Sir T. Vijiaraghavacharya: From Winnipeg to Vancouver I suppose it is about 1,500 miles.

Mr. McDougall: It is a considerable rail distance. It is more than, say, from Lyallpur to Karachi.

Sir T. Vijiaraghavacharya: What perhaps the Chairman is referring to is the wheat which comes to the head of the Lakes. From there it is water transport.

Mr. McDougall: But there is a considerable portion of wheat which comes across to Vancouver. In any case the rail distances in Canada are very great.

Chairman: In the case of Canada how much assistance is given indirectly by Government to the Canadian Wheat Pool system?

Mr. McDougall: I cannot tell you.

Chairman: Has it not been described in certain quarters as a method of dumping?

Mr. McDougall: No. It is a natural product of the country. It has in the past been profitable for Canada. It is on wheat that her wealth has been built up.

Chairman: But if by means of the Canadian Wheat Pool arrangement the Government were spending large sum of money for the marketing of that crop, would not that amount to a form of State assistance?

Mr. McDougall: I think you will find that the Government have only in recent years spent large sums of money. They have spent sums of money in helping the Canadian farmer to help himself, just as you do through co-operation.

Chairman: But we do not do anything through co-operation in that field.

Mr. McDougall: You do it indirectly by paying the salaries of a great many of the employees in the co-operative movement.

Chairman: Very small amounts as Mr. Ramdas Pantulu will tell you.

Lala Harkishen Lal: We spend in the Punjab about 14 lakhs a year.

Mr. Ramdas Pantulu: We spend about 11 lakhs in Madras.

Mr. McDougall: That expenditure only affects 6 to 7 per cent. of the population. This Canadian wheat business affects practically the whole country.

Chairman: What is the amount of assistance given to the Canadian farmers?

Mr. McDougall: I should think that within the last year or two it must be very considerable, because of the Wheat Pool getting into economic difficulties. Owing to the world position the Government have taken steps to give the Wheat Pool such support as will enable it to override the existing economic depression. I suggest to you that this expenditure of money owing to economic conditions, which we must assume will not last for ever, is quite extraneous to general economic and political principles.

Chairman: Therefore your proposition is that whatever may happen about the disposal of the production, India must go on increasing her production of wheat?

Mr. McDougall: She must reserve her output. As other countries progress her position will otherwise become very much worse. If your premises is to be accepted an enormous amount of money is being spent through the world, unnecessarily, on agricultural education. The countries that go on spending money will come out best in the long run and they will do so at the expense of the countries that do not. If New Zealand brings down her butter output and Denmark continues to maintain her butter output that will be to the benefit of Denmark and not to New Zealand.

Chairman: But confining ourselves to wheat your proposition is that your advise to India is to go on increasing her cultivation of wheat irrespective of what may happen to the price at which the surplus wheat can be disposed of.

Lala Harkishen Lal: Has there been any surplus of wheat within the last 10 years?

Chairman: That is another part of the problem. I am trying to find out what the advice is. I understand that India must go on increasing her production of wheat so that she can dispose of some surplus in the world's markets at any price that surplus may get.

Mr. McDougall: It is quite unnecessary to confine the argument to wheat. The whole principle of my paper is to increase output in the lines of production that are most profitable to India.

Chairman: If you want to qualify it in that way then I have nothing more to say.

Mr. McDougall: I have taken wheat merely as an example, because it is the simplest commodity to calculate values on.

Lala Harkishen Lal: That relates to exportable commodities and for those commodities we ought to have selected crops which will fetch the best price?

Mr. McDougall: That is so.

Mr. Devadhar: Does greater output necessarily mean greater wealth to the agriculturist?

Mr. McDougall: Under normal conditions yes, decidedly—and up to a certain point which I have referred to in my paper. If you are going to start on the assumption that the present economic position of the world is going to last for ever then I have no more to say. But on that assumption your work on your banking Committee is not required.

Chairman: I was trying to repeat to you the inference which can be derived from the experience of America which led to the legislation of 1929. If you say that their experience, or their wisdom, was entirely wrong I have nothing more to say.

Ch. Mukhtar Singh: They started with the idea that there should be no export of wheat.

Chairman: They reached the position at which wheat was being exported at a price which was not bringing a proper return to the grower.

Ch. Mukhtar Singh: If you agree that India should not remain an exporting country, we shall have to decide whether it should or should not produce more.

Chairman: We shall come to that presently. But the point is—why did America come to that conclusion?

Ch. Mukhtar Singh: They found it was not a paying proposition.

Chairman: That is the point. They found that the export of wheat was not a paying proposition and having found that, they wanted to restrict the output of wheat.

Ch. Mukhtar Singh: They could not do it for cotton.

Chairman: I am dealing with wheat at the moment because Mr. McDougall has prominently referred to the wheat position in India.

Mr. McDougall: I have only referred to it because it is the simplest commodity to calculate on.

Chairman: My whole point is that production can be increased only if it is found that increased production can benefit the agriculturist. It may be that by putting more manure into his land he may get an extra 5 bushels of wheat, but unless that extra 5 bushels are going to be a paying proposition, well, manure or no manure, he cannot possibly be expected to grow the extra wheat at a loss to himself.

Mr. McDougall: You have quoted one authority; let me quote another authority. This is O'Brien's Agricultural Economics: "With the development of international trade and the opening up of new areas, the possibility of any organisation short of a world-wide one controlling the production of any commodity is becoming more and more remote.

Mr. Ramdas Pantulu: In that connection I would like to add that I have been consulting more than one system of economic restriction. I have no actual experience of restrictions but three or four works on economics are unanimously agreed that the experiment of restriction is not going to succeed.

Chairman: I have seen all that. I am at the present moment trying to find out Mr. McDougall's views on the basis of America, which they say is based on 10 years' experience; when the producer could not get a proper price for his produce they had to start methods of restriction, not special restriction but co-operative restriction. The remarks you made will come in very pertinently with reference to Mr. McDougall's scheme about the restriction of the jute production. If on principle it is wrong to restrict, then it will be wrong there also. For the present I am just trying to fix up the principles. I wanted to know whether it would be wise for any country to confine itself to wheat when the wheat cannot be disposed of by the producer except at a cost lower than his cost of production. America found that it was not possible to dispose of that wheat at a profit to the producer and it was compelled to restrict her wheat production.

Mr. McDougall: I think you had better understand what the actual position of the cultivator is in America. America has produced in the past great quantities of wheat. The price of surplus wheat in any country is dependent on the world prices. The American farmer is in that position. He has no protection with regard to wheat which is of any value to him. He has protection with regard to cotton for instance. But no scheme that will work out in practice has been devised for the American wheat farmer. They have attempted it through the Federal Farm Board but that is not protection. It is bounty feeding. I suggest that the experiment is not a happy one.

Chairman: Did I understand you to say that America has no protection for her wheat?

Mr. McDougall: It is quite useless for America to try and protect her wheat by putting a tariff on anything coming into the country because she is an exporting country for this product.

Chairman: But still she has protection against wheat being imported into the country. Has she got a protective tariff against wheat coming into the country, say from Canada?

Mr. McDougall: Yes.

Chairman: Protection is given to the farmer against the importation of wheat coming into the country.

Mr. McDougall: But if America is exporting very large quantities of wheat obviously that protection is not very much use to her. Therefore the wheat farmer is dependent on world prices working inside the country where his cost of production is enormously increased by the high tariff

walls with which he is surrounded, for his labour and everything else, for his machinery and everything that he uses on the farm.

Chairman: Then your advice to India still is: You go on increasing your production of wheat, irrespective of what may happen with regard to the disposal of that wheat?

Mr. McDougall: My advice to India is under ordinary conditions to do that. India, like every other country, must look forward to this wave of depression turning.

Chairman: If every country went on increasing this production of wheat for purposes of export—and at the present moment the position is slightly in favour in spite of the depression because Russia had not yet invaded the world's markets—and if the supply in the world's market is larger than the demand, is not this over production all round bound to react on prices and bound to lead to surpluses in every country?

Mr. McDougall: Undoubtedly. At the present moment that is so, but at the end of this economic storm it will be a question of the survival of the fittest. The country that produces most per acre, at the lowest cost per acre, is the country which will weather it best.

Chairman: What is the position in England?

Mr. McDougall: The position in England is the same. Her whole system of agricultural economics has been built up on improving the output of the farmer. Let us take the New Zealand farmer as against the Danish.

Chairman: Will it be possible to confine ourselves to wheat?

Mr. McDougall: I think the analogous output in the shape of butter gives a much clearer idea of the position.

Mr. Devadhar: I can give some figures for wheat. In England it is 49·16 per acre, Denmrak 48·5, United States 15·7, Canada 15·5, India produces 9·5, Portugal 6·8.

Ch. Mukhtar Singh: U. S. A. exports to the extent of 20 per cent. of the wheat output.

Chairman: That is true. They are trying to cut it down. They have given various reasons. If I were to read out extracts from papers I will take much of the time of the Committee. My point is this. If you export a large quantity of wheat, then your internal prices are governed by prices in world markets. Therefore when the world prices are low, the internal prices are bound to be low. And this in the end reacts on the unfortunate cultivator. They have given reasons why they came to that decision. It was that definite decision which led to the Farm Board Act. I wish to get out extracts of the relevant portions of these papers and circulate them in due course. America used to export large quantities of wheat. The result of that was her internal prices, which then naturally depended on world prices, were very low. The agriculturist on the whole suffered: he suffered in regard to wheat consumed internally; he suffered in regard to wheat exported also. Under the present depressed conditions, it is happening in India. It happened in America long before this depression.

Ch. Mukhtar Singh: The depression started in America in 1921.

Chairman: There was no world depression then.

Ch. Mukhtar Singh: In 1921 a committee was appointed in America known as the Agricultural Crisis Committee.

Chairman: But then the point is this. The agricultural crisis took place in America owing to overproduction. It was not a world crisis as we are now faced with.

Mr. Ramdas Pantulu: There is one point which struck me. While undoubtedly Mr. McDougall was dealing with the export aspect of wheat, the tenor of the whole of the first page impressed me as if he was also speaking more definitely about our effort in producing more per acre than on extending cultivation. The total produce will depend both on the area cultivated and the kind of farming. He was thinking of the yield per acre and asked us to produce more per acre. If we carry out Mr. McDougall's idea by restricting the area and producing more per acre it will certainly be an economical proposition for the country. He is putting forward the idea of intense farming such as by manuring etc. In fact that aspect of it appealed more to me, and I think there is much to be said for it.

Chairman: I am not sure that this is the point. Mr. McDougall says, if the quantity of wheat per acre could be increased the value of Indian production would be very considerably increased: he does not refer at all to the curtailment of the area of production.

Mr. Ramdas Pantulu: It is not inconsistent. He is speaking of the low productivity of the soil in India. If the productivity can be increased by better methods agricultural wealth will be increased.

Chairman: That of course we all know. Read the recommendations of the Royal Commission on Agriculture. Here he gives specific figures: in terms of English production the increased wealth to India would be £1,000 millions.

Mr. Ramdas Pantulu: On the present cultivation basis.

Chairman: But if the area of cultivation was reduced surely there would not be that amount of increased wealth.

Mr. McDougall: I was not writing an elaborate treatise on agriculture. I was giving a bird's eye-view.

Chairman: That is perfectly true. I have got to examine the bird's eye-view.

Mr. McDougall: You are quite at liberty to do that.

Chairman: Later on when you come to other portions there are other matters which will have to be looked into. When we come particularly to marketing you talk about millions of pounds of wheat lying surplus, and I was really trying to find out what you are after here. It struck me: if we are going to increase production what is going to happen to the surplus? It may either be used for purposes of export or for consumption within the country. For the present I am looking at it from the export aspect. I may have to examine it later on from the point of view of internal consumption. My point simply is this. In view of the experience of America it may not

be profitable to the farmer in this country to increase his production of wheat which may thereafter have to go into world's markets in larger quantities and sold at prices not profitable to the farmer.

Mr. McDougall: There are two classes of crops: money crops and crops grown for the consumption of the cultivation. What I say of wheat practically applies to every money crop.

Ch. Mukhtar Singh: There is one very important point. In America 25 per cent. of the population live on agriculture, while in India 93·5 per cent. live on agriculture.

Chairman: From the point of view from which I was tackling the problem, does not that make the position worse? If this percentage of population gets for its wheat say 8 annas less than the cost of production, what would be its economic position?

Ch. Mukhtar Singh: My point is this. In the case of America it was possible to restrict the area and divert the population to some other occupation, while it is not possible in this country to divert the population to anything else.

Chairman: That is an answer to Mr. Ramdas Pantulu. He wanted to restrict production. I did not start with restriction of production.

Ch. Mukhtar Singh: I thought by quoting the Farms Board you were under the impression that there should be restriction in India also.

Chairman: I did not put forward that proposition. I simply wanted to know what, according to Mr. McDougall's idea, was going to happen to this large increased wheat production in this country.

Mr. McDougall: I was going to give you an analogous case. The production of butter in New Zealand and Denmark is for sale in the world's markets. Now, Denmark has succeeded in facing the competition of the world because she has increased her yield of milk from somewhere about 400 gallons per cow to something like 800 gallons per cow (I have not got figures before me, I am only giving you very approximately). She has done that because of education; because of the large output per cow the cost of production was enormously reduced. If in New Zealand the production of milk per cow remained low, how would it be possible for her to compete with Denmark unless she accepted a very much lower standard of living than she has or unless her natural conditions were very favourable for milk production.

Chairman: I do not know much about the circumstances of that particular case because I have not studied it. I will put you another question. Is it seriously your suggestion that this largely extended output of wheat . . . . .

Mr. McDougall: Please don't refer to wheat. I have already told you that I have used wheat as an example.

Chairman: You mentioned wheat as an illustration, I am simply using it as an illustration. If to enable this larger production of wheat to be marketed in the world's markets it is necessary to accept a price lower than the cost of production. I am pretty sure to that proposition there will be one answer across this table. We all know how miserable is the standard of living of the unfortunate peasant. With reference to standard of living that comparison cannot apply to the case of the Indian peasant.

Mr. McDougall: But the standard of production since then in New Zealand has gone on the same lines as in Denmark, and she can face Danish competition in the world's market. Had New Zealand accepted a very low standard of production then she, subject of course to natural conditions, would have been compelled to accept a very low standard of living.

Mr. Devadhar: I noticed a high standard of living there. The change that was brought about with regard to the improvement of butter so as to enable it to rule the world's markets was largely due to the fact that every available acre for the production of the best fodder was utilised for that purpose. There I found small portions of land under wheat, producing the largest quantity per acre. In the middle of last century, New Zealand was faced with the competition of Siberia, Australia, and America in wheat, and they at once found that it was not profitable for them to concentrate on wheat, but to turn their attention to something else, so that they can get the highest out-turn from their land. I have seen best bacon produced there. With state aid, and wih state supervision they were able to put into the world's market . . . . .

Mr. McDougall: With state supervision, not state aid.

Mr. Devadhar: If their reputation suffers their agriculture will suffer.

Mr. McDougall: They decided that the dairy cow is likely to produce more wealth in their climate than wheat.

Ch. Mukhtar Singh: Denmark was also an exporting country of agricultural produce. They had a scientific investigation with the result that they are not now exporting agricultural produce, but manufactured goods. That is the only way of producing more wealth.

Mr. McDougall: She has not the ghost of a chance in regard to wheat. Therefore she turned after considerable research to a line of production, which has made her wealthy.

Chairman: What you have now said is practically the conclusion of what I have been trying to place before Mr. Mukhtar Singh. It is only that form of agriculture or industry which is profitable to the agriculturist that can well find a ready encouragement in the country.

Ch. Mukhtar Singh: I feel that so long as India remains an exporter of raw materials it will remain poor. If she wants to become rich then she should cease to export any raw material.

Chairman: I am pursuing my line of argument. All I can say is you are going much beyond me at the present moment. I do not want to subscribe to all that. I was simply trying to find out what is going to happen to this large increased production of wheat.

Ch. Mukhtar Singh: If you put that question to me I will say this: because the cultivator is not getting enough to-day, the animal is not getting anything at all. If we produce more we shall consume more.

Chairman: It may add to the potential wealth, but not to the visible wealth.

Ch. Mukhtar Singh: It will. In that case we shall be exporting manufactured goods.

Chairman: That will take a long time in coming.

Ch. Mukhtar Singh: A country like India producing any amount of rice is importing starch. It is the position to which we have come.

Sir T. Vijayaraghavacharya: About the area of production there is a curious thing. The pre-war average of area in India was about 29½ million acres, and it is now between 31 and 32 million acres, so that really there has not been very much change in the area. I personally believe that nothing is going to alter the area of cultivation under wheat except perhaps large irrigation schemes. Doubtless when we get the new irrigation scheme in Sind successfully working we shall have a considerable increase in the area, but except for that kind of large irrigation works in suitable soil I do not think the area of wheat is going to increase. Any increase in production must therefore come necessarily from what you call intensive cultivation.

Ch. Mukhtar Singh: Mr. McDougall's figure is not correct when he says that it is 9½ bushels per acre.

Sir T. Vijayaraghavacharya: The Indian average is 744 lbs. In 1921-22 (harvest of 1922) it was 781 lbs.

Ch. Mukhtar Singh: According to the latest Agricultural Statistics 1927-28 the average yield is 816 lbs.

Sir T. Vijayaraghavacharya: I take these also from official statistics. In 1929-30 the average is 744 lbs.

Ch. Mukhtar Singh: Average for 1924-25 13·9; 1926-27 13·8; and 1927-28 15·2.

Sir T. Vijayaraghavacharya: I think we may take that the area of wheat, unless for exceptional causes such as the Sind Project, is going to remain more or less the same. You cannot judge the general progress of the state of a country from the average yield because I find Egypt produces in the case of wheat much more than Canada: probably it is due to the fact that Egypt has a much smaller area than Canada.

Mr. Ramdas Pantulu: 744 lbs. is equal 12½ to 13 bushels.

Mr. McDougall: I got these figures from this office.

Chairman: I am not so much concerned with figures. I was on the fundamental proposition that if such a large quantity is produced what would happen to it. My first doubt was: supposing it is exported, how to deal with marketing; if this were exported would it bring in an equivalent amount of wealth to the ryot taking into account the cost of production. This doubt arises in view of the happenings in other parts of the world. From my knowledge of economics, etc., it can only mean a further reduction in price and therefore the ryot, instead of becoming richer, would become poorer. I was looking at it from the broader point of view.

Sir T. Vijayaraghavacharya: Pursuing that point of view I doubt if India is ever going to be a very large exporting country. The Sind project may alter the position to a certain extent. The consumption of wheat in India is growing and is now estimated at 8,800,000 tons, in round figures, 9 million tons. It is very curious that from 1925 till the last harvest our production was never more than what was required domestically. In fact in two years it was less than the quantity required for domestic consumption.

Mr. Lamond: Before the war wheat was exported.

Sir T. Vijayaraghavacharya: You know it means—the Royal Commission on Agriculture arrived at the same conclusion—that there is more domestic consumption of wheat in India after the war. The average consumption of

wheat is about 9 million tons, and practically, except in a bumper year like the present one which is exceptional, the production is more or less equal to consumption.

Mr. Rushforth: If there is no possibility of the area under wheat being increased, is there any possibility of the area under wheat being diminished?

Sir T. Vijayaraghavacharya: If the conditions of the present year continue for 5 years more it stands to reason—I am merely theorising—that even the Indian farmer who may not probably jump to conclusions at once, may find it worth while to reduce the area.

Mr. Rushforth: My idea is if you can increase the amount of wheat that is required for consumption by better methods, by using less land, you can utilise the surplus land for producing something else. This is how it is going to work out in practice. In Bengal the area under jute must always be the same because you cannot use your jute land for raising anything else. But with regard to wheat land you cannot say the same thing. With regard to jute it is a physical condition.

Mr. Ramdas Pantulu: It is possible you can produce wheat that is marketable with less land than you have and use the balance for producing other things.

Ch. Mukhtar Singh: The area under wheat is already going down.

Sir T. Vijayaraghavacharya: I will give you figures. In the current year though there is a bumper crop the area is actually 600,000 acres less. But I think that is a fluctuation which always happens without any particular reason.

Mr. Devadhar: The yield is rising.

Sir T. Vijayaraghavacharya: As a matter of fact the figures seem to show that the yield per acre is rising.

Mr. McDougall: I have some figures before me. You said that the average production is 744 lbs. (Commercial Intelligence and Statistics of India) in 1928-29 the yield was 595 lbs.; in 1927-28 542 lbs.; in 1926-27 642 lbs; in 1924-25 625 lbs.; in 1923-24 694 lbs.; 1922-23 724 lbs. This does not represent an average of anything like 744 lbs.

Sir T. Vijayaraghavacharya: 744 was the yield in 1913.

Chairman: There was a bumper crop in that year.

Ch. Mukhtar Singh: I gave a higher figure: in 1927-28 it was 816.

Chairman: What is that and what is this?

Sir T. Vijayaraghavacharya: As a matter of fact these figures do require reconciliation and if they are sent to me I can reconcile them or get explanations from the officer who compiled them. This figure of 781 lbs. in 1921-22, which is the highest yield on record, I have taken from the same source.

Chairman: So far as I am concerned, I have no quarrel with the figures; there may be errors owing to want of co-ordination among these various statistics. I am looking at the picture as a whole. Suppose with the present area under cultivation the farmer increased his output of wheat, what is going to become of the wheat to that extent and how is the farmer going to obtain that increased wealth?

Mr. McDougall: I am not basing my calculations on the present conditions at all. The present conditions are absolutely abnormal. One would argue that the present position arises not so much from over-production as from under-consumption.

Chairman: According to the statistics which I collected in London, the American authorities hold that it is due to over-production.

Mr. McDougall: There are other economists in the world who think it is due to under-consumption. With regard to the general principle which I have outlined, I refer you back to my memorandum on marketing. In the second paragraph I said:

> "In the economics of production a factor known as the law of diminishing returns comes into operation. In many highly developed countries a point has been reached when it has become impossible to increase production except at the sacrifice of profits. Before that stage is arrived at increased production actually reduces costs and thereby increases profits. * * *"

The great majority of agricultural economists throughout the world will agree with me. It is on that paragraph that my whole case is based. If we are going to enter into the argument whether that is right or wrong, we will have to be here for several months.

Chairman: So far as I am concerned, I have no further discussions to enter into in regard to the rest of your paper on "Land and the Cultivator", because with regard to those matters, the conclusions you make are the same as were made by the Agricultural Commission and we know all about them. My colleagues might want to ask questions, but I do not want.

Mr. McDougall: I understand that one of the recommendations of the Royal Commission on Agriculture was to appoint an Economic Institute for Research, part of the duties of that Institute being the development of agricultural education and the undertaking of scientific experiments in order to increase the amount of produce grown on the land. Is that the case?

Sir T. Vijayaraghavacharya: The Imperial Council of Agricultural Research has undertaken that work through the provincial departments and other bodies.

Mr. McDougall: That is practically the reason for your existence?

Sir T. Vijayaraghavacharya: Yes.

Mr. McDougall: But if it increases production by improved methods, do you suggest that all that money derived from the increased crop is wasted?

Chairman: Nobody suggests that all the money is wasted.

Mr. McDougall: I am afraid your arguments lead to that.

Chairman: My argument does not lead to that, because I fully recognize that certain things would be done but I am doubtful whether in the manner you indicate. That is the reason why I read that part and then came to your paper on marketing, the gist of which in regard to wheat is to make available better facilities for the export of wheat. My proposition is this: suppose there is more production of wheat and the increased production is thrown into the world's markets. From the little

of economics I know, to my mind the suspicion arises that if supply exceeds demand the inevitable result will be to reduce prices and that actually happened in America before the world depression started. If that is the position, how is Government going to acquire more wealth? That was in fact my sole point. There may be other ways of doing it, Lalajee says by internal consumption and Mr. Mukhtar Singh does not want any export.

Mr. Devadhar: Here is a magazine "Rural America". May I ask you what you understand by this:

> "The basis of rural culture is the farm and not the market. The basis of rural culture is the man, the woman, the whole establishment and the organisation".

Has it a social significance or economic significance?

Mr. McDougall: I am not the writer of that paper.

Mr. Devadhar: How would you interpret it? I want to know whether you consider it as a social aspect or as an economic aspect.

Mr. McDougall: I do not really know what it means, but I should say that it is very much social.

Chairman: If I have read your paper on marketing properly, I see that stress is laid on the export of surplus produce. It is said:

> "Facilities for collection and export have, it is stated by competent authorities, actually declined in recent years".

Have you anything to say about that?

Sir T. Vijayaraghavacharya: I wanted to ask Mr. McDougall what he was thinking of.

Mr. McDougall: I was thinking of examples in the Punjab where several of the big firms that used to operate there have disappeared.

Lala Harkishen Lal: European firms have reduced their establishment.

Chairman: Do you know the reasons for it?

Lala Harkishen Lal: Smaller quantity is available for export.

Chairman: That is because the crops of 1928 and 1929 were short crops.

Lala Harkishen Lal: From 1918 crops in the Punjab have been very irregular.

Sir T. Vijayaraghavacharya: From 1928-29 the crops have not been sufficient.

Chairman: This began during the War with the control of wheat and after the War, excepting last year, the crops have been short crops during 4 or 5 years.

Lala Harkishen Lal: Control was based on the fact that production was not sufficient for home consumption. Control also came with the idea of keeping food inside the country, because the Punjab was the recruiting ground and if there was no wheat, there would be a hue and cry; so there was control in 1917, 1918, 1919 and 1920. In 1921 they gave up control and as soon as they did so, 100,000 tons were exported. As soon

as this was done, we felt a shortage and there was a huge cry about it, and as I have said I managed to get half a million tons from Australia to feed the Punjab.

Sir T. Vijayaraghavacharya: That is why I said that there was no likelihood of any large export of wheat till new projects like the Sind project came in.

Lala Harkishen Lal: The population is increasing and the consumption is increasing on that account also.

Ch. Mukhtar Singh: In the current year there is a surplus of wheat in the Punjab.

Lala Harkishen Lal: There may be. But I told you what happened. In 1921 an enquiry was made and the report was that there were a million tons available for export. The Punjab Government wrote to the Government of India recommending that the embargo on export ought to be removed and when the embargo was removed, there was only a surplus of 100,000 tons and I had to replace it by half a million tons from Australia.

Chairman: The point as I understand it is this: the decline in the exports and the withdrawal of the great exporting firms in the Punjab markets were due solely to want of wheat. That is, production itself had declined owing to crop failures, frost, etc.

Lala Harkishen Lal: And larger consumption.

Sir T. Vijayaraghavacharya: There was nothing to deal with.

Mr. Shanmukham Chetty: May not part of the explanation be that as a result of the low price of Australian and other wheat, it was found difficult for Indian wheat to compete in foreign markets, and that was why the firms had to abandon their business in the Punjab?

Sir T. Vijayaraghavacharya: There was nothing to send really.

Mr. McDougall: The explanation that was given to me in the Punjab does not quite coincide with that view. The reason given was—it is a view I can hardly accept—that owing to the development of the railways in the Punjab, the old established markets, where the wheat used to come to in very large bulk, were broken up, that there was no organisation in the Punjab that took the place of these markets and the merchants found there was nothing to buy as the small men were buying much more on the farm and keeping the stuff within their own quarters and disposing of it wherever they could in an unorganised manner. I do not know whether that view is correct or not.

Chairman: I do not know about these things, but I think that in the broader sense the explanation given by Lalajee and confirmed by the two bankers who finance the export firms is substantially correct. I think Sir T. Vijayaraghavacharya's information is the same.

Sir T. Vijayaraghavacharya: In fact I can reconcile that. The fact that there was more domestic consumption gave an opportunity for the smaller Indian dealer to deal with the product rather than the large European exporter for foreign markets.

Mr. McDougall: But is it not rather curious that this should happen in a part of the country where there has been so much development in irrigation and where an enormous amount of land is brought under irrigation.

Lala Harkishen Lal: I shall explain that. The fact of the matter is that in South-eastern Punjab they used to eat what we call mixed grains maize, Indian corn, gram, etc. They have given that up now and eat wheat. A very large area of the population and men in my position, who used to have a little combination of mixed grains in our food, have given that up.

Mr. McDougall: It is obvious that that mixed grain must still be in the country; where does that mixed grain grow?

Lala Harkishen Lal: That grows least.

Sir T. Vijayaraghavacharya: I may say that a similar process is happening everywhere. In Southern India where rice is the food product, it is now replacing all the inferior grains.

Chairman: It is a sign of the rising standard of living.

Lala Harkishen Lal: In the Eastern districts where they used to grow this mixed grain, *e.g.*, Rhotak, Isar, etc., the rainfall has decreased in the last ten years and the grain is not naturally produced. That is why it has adjusted itself so far as production goes. But it is apparent that more wheat is now consumed than used to be and the population has increased also. Wheat is now used not only in the Punjab but in other parts of the country where rice was the staple food. For those who have adopted the European fashion of living, if they eat meat, their second food has become wheat, not rice.

Sir T. Vijayaraghavacharya: The fear of diabetes among the educated people has increased the consumption of wheat.

Chairman: Apart from the increase in internal consumption, there has been an actual reduction in output: the figures are:—

In 1926-27	...	8,973,000 tons.
In 1927-28	...	7,771,000 tons.

In 1920-21, 1921-22 and 1922-23, the outturn was 10 million tons. So there has been an actual reduction in the output.

Lala Harkishen Lal: The figures for 1919-20, 1920-21 and 1921-22 are absolutely wrong. The figures are largely exaggerated because it was actually found that as soon as we exported 100,000 tons we had to get 500,000 tons.

Chairman: There was a drop in one year, 1920. In that year the output was only 6,700,000 tons. My point is that I am afraid that Mr. McDougall did not get the fullest information. Therefore he is inclined, from whatever information he got, to draw, if I may say so, a not wholly correct inference. It is perfectly true that the great exporting

firms have withdrawn their agencies in the Punjab, but that is not due to the fact that export has declined owing to the present marketing methods, but it is due to the fact that crops were short and there was no surplus to be exported and having no work the firms had to withdraw themselves. That is established even by the statistics of production.

Mr. Lamond: Will that be a reason to increase production?

Chairman: In fact Mr. McDougall admits that if we try to increase the production now, under present conditions of depression, nothing would be gained. Since those days , the share of the market which India has occupied has been taken over by other countries. Now if India again enters that market and puts in, say a million tons, there will again be competition trying to bring down prices.

Mr. Lamond: India has a very great advantage in that respect.

Lala Harkishen Lal: So far as consumption goes, it affects England only. England is the largest importer of our wheat and there is no other country which takes up so much wheat from India at present.

Chairman: As matters stand, my recollection of the Agricultural Commission's Report is that it is England who takes Indian wheat at this stage. Australian and Argentine wheat do not come in.

Ch. Mukhtar Singh: If the figures given here are reliable, we are not consuming more wheat than we used to. I am referring to the Review of the Trade of India for 1929-30, page 92:

In	1922-23	we were consuming . . .	95,61,000 tons.
„	1923-24	„ „ . . .	92,07,000 „
„	1924-25	„ „ . . .	84,41,000 „
„	1928-29	„ „ . . .	81,61,000 „
„	1929-30	„ „ . . .	80,29,000 „

Sir T. Vijayaraghavacharya: You are deducting the figures of exports from the figures of production. To make it correct, you have to add imports from foreign countries.

Ch. Mukhtar Singh: I have added the imports. These figures show that consumption is not going up.

Chairman: So far as I am concerned, I am not on the point of consumption. The explanation for a decrease in export is that owing to the deterioration of marketing arrangements India has lost its ground in the markets of the world.

Ch. Mukhtar Singh: Here is another report by Dr. Clouston and that refers to the British Industries Fair. He has pointed out here that India has a very bad reputation for its produce in the world market, and all the maize, wheat and other articles are not at all accepted in the foreign market and therefore we are losing the market. I am speaking of the latest report of the Agricultural Research Council.

Sir T. Vijayaraghavacharya: You can only take it as Mr. Clouston's personal opinion.

Chairman: I am not concerned with statements of that sort. I am concerned more with facts and the fact remains that the shrinkage in exports from India has been wholly due to crop failures and less production in recent years than in 1919, 1920, 1921 and 1922. It is for that reason that the great export firms have withdrawn their agencies from many important markets, particularly in the Punjab. Then when I read the statement of Mr. McDougall, I think it was new to me as I had some information about the economic condition of the Punjab which reflected itself on its financial position. That is the reason why I was trying to find out how far the position is correct.

Mr. McDougall: As to that we have just heard that consumption has not increased.

Ch. Mukhtar Singh: It has actually decreased.

Mr. Shanmukham Chetty: The explanation at the foot of the table in the Review of the Trade of India for 1929-30, from which Mr. Mukhtar Singh quoted his figures, shows that the balance available for consumption is not the same thing as actual consumption as stock figures have perforce to be included in the absence of any reliable data. This table does not show that consumption has gone down; even on the available balance it is going up.

Chairman: My point is that exports have fallen off owing to the reduction in the output arising out of partial crop failures and it is for that reason that the great export firms have withdrawn their agencies particularly in the Punjab. This statement is fully confirmed by bankers like Messrs. Buckley, Lamond and Lala Harkishen Lal who finance these firms.

Ch. Mukhtar Singh: So far as Australia is concerned, because of lower railway rates in that country, it is able to sell wheat at cheaper rates than India.

Chairman: You say "Mr. Owen Roberts, a well known expert on the marketing of wheat in the Punjab has made the statement that marketing in that province is simply chaotic". Is that statement correct according to you?

Lala Harkishen Lal: I would not say so. There is no market there for export and so the question does not arise. There is no wheat available for export.

Mr. McDougall: I say that is the case with regard to both the internal and the export trade. Even in England I would describe marketing conditions as chaotic. But England is better organised than India.

Lala Harkishen Lal: By chaotic I understood that there has been disturbance due to the ancient system of marketing. So far as the ancient system goes it is quite in tact, but so far as the supply of transport facilities are concerned I might say conditions have become chaotic because there is no surplus wheat to export, in the Punjab.

Mr. McDougall: That system has been in existence for some centuries. Is that so?

Lala Harkishen Lal: It is not many centuries old, because India began her export trade in wheat only during the last 15 years or so. There have been changes only in the transport arrangements through the introduction of railways.

Chairman: Why do you call the present arrangements chaotic?

Mr. McDougall: Because no improvements have been effected in the system during the last several years. In my opinion according to a comparison of the modern ideas of marketing as carried in other countries your conditions are ancient.

Chairman: How would you improve those conditions?

Mr. McDougall: By organising on modern lines.

Chairman: Lalaji, is there no organised marketing system in the Punjab *e.g.*, the *mandi* system?

Lala Harkishen Lal: This is an old system. There is nothing new in it.

Mr. McDougall: If you say that the best system for India is to carry on her ancient methods without any change, then we may leave it at that.

Chairman: I am only trying to find out how it is chaotic. In your experience you say conditions in England are also chaotic. If that is true, then conditions in India will naturally be chaotic.

Sir Hugh Cocke: Have you in any way tried to improve the conditions in England?

Mr. McDougall: Personally, I have joined in the attempt to improve conditions. The progress is very slow and is a very difficult thing to achieve. But progress is being made especially in the case of milk, wool, live-stock and eggs. Let us take the case of eggs. We had a very good market for eggs in the olden days and we went on producing eggs in our country not in an organised manner. Denmark and Holland started egg-production on a scientific and organised scale and they began to push those eggs into England after proper grading and "candling" (a process by which rotten eggs are eliminated). Ireland and England neglected to do so. Gradually Dutch and Danish eggs dominated the egg-market of England. The marketing branch of the Ministry of Agriculture in England started an investigation into the matter and found that England's drawback was due to lack of systematised grading. The Irish Government also wakened up to the enormous losses which that country suffered—a loss of about 3 pence a dozen which meant several millions of pounds per year. They passed drastic legislation with regard to grading. To-day Irish eggs are in strong demand in the English market. It has become an economic fight throughout the world.

Mr. Shanmukham Chetty: Take the case of butter in Australia. I think it is also done most systematically and there is some sort of grading and so on.

Mr. McDougall: It is exactly so with regard to New Zealand butter. I am perfectly certain that to-day New Zealand would have been in a hopeless position had it not been for the fact that her butter is sold entirely through one organisation. New Zealanders have developed co-operation

wonderfully well and with Government help they have got systematised grading. The result is that merchants in England can only get their supply through one channel. And New Zealanders know that the quality of their butter is good, therefore they can to some extent dictate their own terms.

Sir T. Vijiaraghavacharya: May I know what arrangements are being done and how the farmer sends his supply and so on?

Mr. McDougall: The farmer sends his produce to the co.operative society which sells through the big central organisation.

Sir T. Vijiaraghavachariya: I suppose there is inspection and the Central Agency is controlled by Government.

Mr. McDougall: My understanding of the New Zealand situation is that the Government only has to do with standardisation and grading. That is all they are concerned with. The same is the case in Denmark also.

Mr. Devadhar: I myself have noticed while I was in Denmark that eggs were properly graded before export.

Mr. McDougall: Developments in marketting throughout the world have been simply remarkable. Take Danish bacon for instance. They will not allow inferior bacon to be exported from the country. In this product also they export their goods through one channel only and the result is that competition from inside is eliminated. It was the Germans who started this. Take the case of the vulcanite industry before the war. There was a considerable vulcanite industry in England in those days. There was a good deal of competition amongst manufacturers in Germany itself with the result that they found that they were not making enough profits. So they brought about the formation of this "Cartel" which is really a combine among the manufacturers in order to promote their common interests. They decided that there could be internal competition between themselves but when it came to the question of selling the commodity outside the country it should be done through the agency of the "Cartel" only. The result was that there was only one agency in England for selling German vulcanite goods. They captured the English market by efficient salesmanship. Your Chairman thinks that I have made rash proposals in this paper. I would have been rash had I attempted to commit you to rash co-operative schemes. My view is that your co-operative societies should start marketing organisations but only after the most careful investigation. In all exporting countries like Denmark, New Zealand, Holland, Canada, and California co-operative marketing has made great progress. By combination the Californian fruit growers have produced enormous wealth for themselves. Had it not been for organised marketing, they would not have succeeded in this business. Germany, though extremely highly developed, has not been so successful in the matter of internal co-operative marketing although they are born organisers. Co-operative theorists in England and in Germany criticise their respective countries because they have not developed on co-operative lines. They make a great mistake. It is much more difficult to introduce co-operative marketing in countries that are consuming countries. While it is very important their difficulty like ours is very great. In any case you must exercise caution. With regard to the export trade of the countries I have mentioned, all goods have to pass through a limited number of ports or along railways also limited in number. It is easier for them to

co-operate for internal marketing than is the case in England. We are making the greatest possible endeavour to co-operate just now. We believe that even though it is for internal trade it is to our benefit to do so. The Germans are doing the same thing. They and we will ultimately attain success. But it can only be carried out successfully if there is the utmost efficiency in management. It is not a process to be brought into operation haphazard. Careful organisation and investigation is required from the very outset.

Chairman: If we could have more advice from you on that question of internal marketing I would be satisfied.

Mr. McDougall: I thought it would be a mistake to burden my paper with details. Let me give you one more example of the difficulties of establishing co-operative marketing and manufacturing and of how it is so easy to blunder and spend literally hundreds of thousands of pounds. I think the example will be of great importance to you. I refer to English bacon factories. An Englishman who was interested in Agriculture and in co-operation went across to Denmark many years ago and took some farmers with him. They saw Danish agriculture thriving and saw them selling and manufacturing their stuff through co-operative factories. He immediately jumped to the conclusion that the success of Danish agriculture arose from and was wholly dependent on its co-operative system. With Government support co-operative bacon factories were established. In 1924, I think it was, one was started in my own county. I was not a big producer so I was not a member. This factory got a considerable amount of support from the farmers. Part of the capital was advanced by the Government through their agricultural co-operative loans fund at a reasonable rate of interest. The farmers took up shares. They were very enthusiastic and sent in their pigs. They were not altogether satisfied with the prices. In 1929, that company was wound up. The entire blame was laid by the Directors and the public on the farmers. They said: "What could you expect, these farmers will never combine". That was the reason given. Another organisation was started at the same time, without the same support from the public or farmers. It increased enormously. I did not take any interest in the bacon factories until it went into liquidation, and then I began to wonder where the trouble was. I myself could not believe that it was because the farmers would not support it. My own experience was that the farmers would support an organisation if you could prove to them that they were getting better prices than before. I got hold of one of the Directors and got price lists. When I got the price lists of the produce giving prices for the sides of bacon right through, I went along to a man I knew in the wholesale bacon trade and said 'would you mind showing me the price list of the Marsh Combine?' This is a combine which started a good many years ago with about 4 million pounds capital. I found that this private combine were selling bacon at a pound, a hundredweight, more than the farmers' factory. Then I found another interesting thing, that the price that the farmers were selling at was exactly the same as the Danish and that the English were selling bacon at a pound a hundredweight, more than the Danish. I then enquired into the management and found that their first manager was a Dane who came across to manage it. He was not a success. He was dispensed with. Then they got another who was not satisfactory. I went to the head of the English combine and asked him a few questions

about his bacon factory. I said, 'What do you pay your head bacon manager?' The figure was a very large one, I asked him "what do you think is the cause of the decline of these bacon factories?" He said "because they do not know the first thing about their business. They do not know how to manufacture good bacon. They do not realise that we here are manufacturing the best bacon in the world". You see what a terrible blunder these people made. They never realised that there was a firm already in England who were manufacturing better bacon than the Danish and that the Danish results arose from efficient production to at least as great an extent as efficient co-operation. England threw away, I think, it is tens of thousands of pounds because she neglected a very simple thing.

Sir T. Vijaraghavacharya: Supposing we wanted to follow your marketing methods, we will say in a district like Madras, and we start a co-operative society to help. What is the amount of grant you would suggest?

Mr. McDougall: If I could get sufficient support amongst the cultivators for a co-operative market in rice, for instance,—remember I am speaking now without ever having seen any rice sold or knowing anything of the practical difficulties of the situation, therefore it is with hesitation that I open my mouth about actual methods. But if conditions were favourable then the position would be this—in the first place what support could you get from the local farmers? If there is a demand, or a likelihood of co-operation being a success I would do a great deal of propaganda work. If after investigation I could see that there was a room for improvement, for saving a considerable cost, for systematising marketing, getting a better price wherever the rice has to go to I should start with propaganda work and get the cultivators to accept the idea. It will take a long time. I have never seen these organisations started without a very great deal of work.

Ch. Mukhtar Singh: You mean to say you will ask the cultivator to produce a better quality of rice.

Mr. McDougall: Not necessarily. If the rice grown is not suitable for the market and it demands a much better quality I would go to the Research Council and ask them about it. That is their job, it is not a marketing job. Assuming that you have a variety of rice for which there is a better demand then it would be for the co-operative department, or whatever department you make responsible for stimulating effort on the part of the cultivator—to say: "Now this is the rice you should grow". The cultivator might say, "what is the use of growing it if there is not a market." Then you say to the cultivator: "Very well, we shall try to prove to you that if you establish a co-operative organisation we can link you up with a selling organisation where we will sell you rice in the best market". For the farmer, selling should be on a co-operative basis but he must be taught to centralise. A sufficient quantity of stuff must be handled otherwise the best markets cannot be supplied.

Mr. Ramdas Pantulu: When you speak of the co-operative marketing we in India wish to know precisely what your aim is because in all the provinces co-operative marketing is only done by the co-operative societies as commission agents. No society purchases the produce outright and takes

the risk of selling. The producer brings his products to some city and takes a loan on his produce and if there is a good market they charge commission. That is the co-operative marketing which is going on in this country. There are no co-operative societies which purchase the produce and sell it to others.

Mr. McDougall: Under no consideration would I be prepared to follow any suggestion which would lead to the co-operative society buying the produce. Then it would become a speculative concern with very great risks attached to it. Co-operative marketing has not a ghost of a chance of competing with people in Calcutta or elsewhere. Let me describe to you what we are attempting to do in England just now with wool. In Scotland it is very successful notwithstanding the fact that it was only started three years ago when we got right into the heart of this economic depression. Wool is sent in by the members, most of it by rail. It is taken into the store and immediately weighed. That weight is invoiced in. Then it is thrown on to a grading table. It is graded by our own graders. I have known 30 different grades in one farmer's consignment, of about 150 fleeces. Immediately the lot is finished it is re-weighed in its different grades. That also is invoiced in. Then it disappears as an individual consignment. Then it is thrown into large bins. As these bins get filled up we have it pressed in bales or packs. It is then stored away. At the beginning of the season, in the month of May, our Committee of Management meets. We decide what advances we are going to give on the wool for that year. We give the farmer 75 per cent. of the estimated price of the value of each grade whenever the wool is graded. That is to say the farmer gets his advance, practically speaking, whenever the wool arrives in our store.

Ch. Mukhtar Singh: Who advances the money now?

Mr. McDougall: Wool is a commodity on which advances are easily made. Let me describe to you the conversation I had once with Lord Barnaby, who is one of the biggest brokers in the world. I remember some years ago having to visit his place in Bedford with regard to wool. Lord Barnaby said: "This is the wealthiest city in England for its size and there is the stuff that makes it. The reason is that it is a commodity which produces money. Wool fortunately, and most other crops if you can standardise them, are recognised as good security. The bank advances the 75 per cent. which we pay to the farmer. The bank is supposed to hold the keys of the store, but they really do not. The Bank Manager takes a walk down there once a week, examines the books and takes a look at the stores. He is quite satisfied with that examination". The control they have over it is really nominal. Of course the conditions are very good. Under ordinary conditions I think they would require some control over it. But in any case that can always be arranged.

Mr. Lamond: What margin do the bank take?

Mr. McDougall: The Bank advances 75 per cent. At the beginning of the season the Bank says: "How much money do you want and on what prices are your estimates based?"

Mr. Lamond: But they do check the rate?

Mr. McDougall: They retain that right, but they accept our estimates.

Chairman: When do they pay the balance?

Mr. McDougall: Within 14 days of the sale. It was an Australian whom I consulted about starting a sales society. He said that London was the best market for wool in the world and that Australian wool was sent there, and that therefore we should send our wool to London. I thought the idea was quite good. We sent our wool to London brokers, and we found that our wool was being bought by Bradford staplers who then held the wool and supplied it to manufacturers as it was required by them. I thought there was something wrong here. Why should we send our wool to London when we could send it direct to Bradford or anywhere else at less cost. We are now selling our wool direct to manufacturers from our own store. We have dispensed with dealers altogether. Last year, in spite of adverse conditions, the organisation that we have (now the majority of the associations are combined in a central selling organisations) sold somewhere about 700,000 fleece: it was 200,000 three years ago. We grade wool according to the requirements of the manufacturers. We sell that wool throughout the world. We are now selling direct to Europe on hand sample. We simply send our sample by post to all manufacturers that we know of and who may be interested in that particular grade. Our sales manager is an expert. Samples that meet the requirements of Germany are sent to Germany; similarly to Czechoslovakia, Greece, and of course to all manufacturers in England. Practically all our wool was sold last year on hand sample but not one complaint was received with regard to grade. You know that the slightest variation in wool makes a very distinct difference in price. It shows that if you have efficient management you can turn your goods into money almost immediately after it is produced on the farm.

Sir T. Vijayaraghavacharya: Cotton or wool is a very favourable case. Rice or wheat, for instance, might be more difficult to deal with.

Mr. McDougall: It is quite true it is not done in these cases. As regards wheat, in England we are surrounded by small millers and it is consumed locally. But where you produce rice for the export market, I cannot understand why it should not be done in exactly the same way, and why with proper godowns or stores, it should not represent hard cash.

Ch. Mukhtar Singh: You would confine it to members only.

Mr. McDougall: That is a very interesting point, one on which I am not in agreement with the ordinary co-operative experts. The average co-operative expert including Dr. Friederich will tell you that on no consideration must you take in anybody who is not a co-operator. Now we take in those who are not co-operators and charge them for our commission, a farthing a pound more in the case of wool. Our average commission roughly is 5 per cent. which includes all charges.

Mr. Ramdas Pantulu: The idea of taking non-members is to get business. Our sale societies are composed of a number of societies; they are not composed of individuals, but are federations of co-operative societies, and we have enough business.

Ch. Mukhtar Singh: There are a number of co-operative societies which complain that cultivators do not send their produce to them and they have not enough business.

Chairman: That is a point Mr. McDougall has referred to. To start with, you must do propaganda among producers.

Ch. Mukhtar Singh: He also says, if there is not sufficient turn-over they can also take non-members, so that there may be sufficient business which will bring down overhead charges.

Chairman: If co-operators will not bring their produce, the difficulty from the practical point of view is that you can not get non-members to do it.

Ch. Mukhtar Singh: In the beginning the idea might be attractive, a number of people may join, but after a society is started they find certain difficulties. Some of the members back out, the overhead charges remain the same; money has already been invested and you cannot withdraw it, and you must allow others to have the advantage of the service of the society.

Chairman: If co-operators back out what chance is there of non-co-operators coming in.

Ch. Mukhtar Singh: There may be other difficulties. If you refer to the Bengal report . . . .

Chairman: If there are advantages why should the co-operators back out?

Ch. Mukhtar: Suppose a man is indebted and he is forced to sell his produce, and similar cases.

Mr. Ramdas Pantulu: Individuals are not admitted in our sale societies because in the case of non-members we have got to take legal steps. Suppose he has left his crop with us and we have advanced him 75 per cent. of the value. Before the sale, if the price goes down, we have to ask for additional cover, and in case he refuses to provide this we cannot claim arbitration as in the case of a member. We have to go to a court of law.

Mr. McDougall: You are instancing a case where the co-operative society actually buys the stuff.

Mr. Ramdas Pantulu: It gives a loan.

Chairman: The society takes over a crop of rice and pays 75 per cent. of its value, the crop being the cover, After it has been taken over—say a fortnight—when it has to be sold the price falls, and the society tells the farmer, 'We made an advance to you of 75 per cent. of the value of your crop at the rate prevailing at the time. But there has been a fall in price and the crop you have left with us does not cover the advance we have made. Therefore you must pay back a portion of the money or else put in more grain'. If he refuses to do so, he being a non-member, the only remedy for the co-operative marketing society is to go to a court of law.

Mr. Ramdas Pantulu: It is a matter of practice. When two of our members went to Madura to make certain investigations they found with regard to cardamon sale societies, that some moneylenders and other people had actually purchased the produce from members and got the stuff marketed at a profit through the sale societies. Therefore those members told us that non-members should not be taken.

Chairman: Non-members really act as middlemen and retain a portion of the profits. The whole profit does not go to the producer.

Ch. Mukhtar Singh: Even in such cases a middleman may join a co-operative society purchase from the ordinary cultivator and send it. The danger will be there if it is profitable business.

Chairman: Mr. Pantulu says it cannot be done.

Mr. Ramdas Pantulu: With regard to non-members we cannot say whether it is their produce or not, and we have specific recommendations with regard to them. If there is any doubt members must certify that the produce is theirs. Members must give an account of what they produce, and they must market through us.

Dr. Friederich: In my country we are on principle against marketing produce of non-members. We are of opinion that non-members should not have the same advantages as members because members pay for the shares, take liability, etc., while non-members take no risk at all. If there is any advantage in joining the society they may join the society.

Mr. McDougall: As a matter of principle I agree that marketing should be confined to members of the society. But as a matter of practice it is not inconceivable that it would be better to take the produce of non-members and charge them a little more. You might be able to get a very much bigger turnover which would enable you to carry on your business more successfully. It is a question of expediency.

Chairman: Therefore the discretion, according to your idea, should be with the management of the co-operative sale society.

Mr. McDougall: Most emphatically so. There is no obligation on the part of the management to take the produce of a non-member.

Dr. Friederich: In view of the special conditions in India and the fact that you have no advanced marketing, I should like to recommend taking the marketing business of non-members, also.

Ch. Mukhtar Singh: I see two or three difficulties. One is that by adhering to this principle there may be less turnover and more overhead charges. Then you must have direct connection with a wholesaler if you want to dispose of the crop at a good price, and you must have some arrangement whereby you will have to supply a definite quantity. The wholesaler has to supply another market and unless there is a definite understanding he cannot deal with you. It may be that the total amount of produce is not available from members owing to hailstorm, frost, and a number of other causes, and then in order to keep the whole thing running and to realise the money invested you will have to take the produce of non-members. I do not say that it should be compulsory for the management to do so; it is simply this: if there is a likelihood of less turn-over or more over-head charges or the loss of the wholesale market, certainly you ought to do it.

Chairman: A number of Punjab cases have been brought to our notice. In a particular village although all the members were members of a co-operative sale society, they did not send the whole of their produce to the society. In another instance only a fraction of the members took their produce to the society. That is the kind of difficulty which was brought to our notice. The same difficulty was brought to our notice in regard to Bombay, and it was proposed that there should be a penalty levied on the defaulter. From the practical point of view I do not think any case has been brought to our notice in which a non-member wanted to take his crop to a co-operative sale society and the society refused to take it.

Ch. Mukhtar Singh: In some reports the suggestion has been made that non-members also should be allowed to deal with the society, and that if

this was done there would be a possibility of success, otherwise not. Certain others also have disliked the idea of a penalty.

Chairman: That is another matter.

Ch. Mukhtar Singh: If there is no penalty how could the management enforce discipline?

Chairman: That was the point I was on. In your organisations in England and Germany, if a member defaults and does not bring the whole of his produce to the co-operative society is there a penalty against him?

Mr. McDougall: With regard to bacon organisations I think one or two had a penalty, but they found it impossible to put it into practice. There have been voluminous discussion on this point of penalty *versus* non-penalty, and my view of the situation is that where it has been attempted it has never been really successful. Scottish farmers are combined in a milk-pool supplying two millions of the population, and they introduced a penalty. As a matter of fact they had to go to the courts in order to prove whether a penalty was legal or not. The courts decided in their favour. It was a very well known case.

Chairman: You could enforce the penalty.

Mr. McDougall: Yes. With regard to the bacon societies I think they failed to enforce, but in the milk trade the result of enforcing that has been that they have lost a big number of members.

Chairman: In the Punjab cases, if one of the members of the society found that he could get his money more readily or perhaps at even a little higher price, he sold away his produce immediately instead of taking it to the sale society. That was your experience in the Punjab, Lalaji?

Lala Harkishen Lal: Yes.

Dr. Friederich: In my country we are of opinion that it is of the greatest importance that people who join a marketing society should be compelled to sell to the society all their produce except what is required for the household, and in case they fail they should have to pay a penalty. We know that penalty is not of great use, and in case we see that people do not bring all their produce to the society, then we exclude them. The manager knows exactly the quantity, raised by the members. Our marketing is pure inland marketing. There is no export marketing. We have this compulsory supply in eggs marketing societies, vegetable and fruits marketing societies, but we have not got it for wheat, because there are special difficulties. We export only rye, oats and beet-sugar. We have the biggest production of rye in the world. It is chiefly produced on big estates, and in order to encourage its export a premium is paid. In regard to oats there are special difficulties. In former days oats could be supplied to military forces, but now we have to export our oats as there are few horses in the army. As regards other agricultural produce we produce too little in our country and we have to import. We import wheat, barley, maize, butter, cheese eggs, and frozen meat. We are, however, a country which would be able to produce a big percentage of the imported agricultural produce, and since 1928 subsidies are given for marketing agricultural produce in order to stabilise our trade balances. These subsidies are given only to co-operative organisations, since Government recognised that marketing can be well organised only through co-operative sale societies. In case it is wanted I can go into details and tell you our special experience. Marketing problem is no new problem with us.

50 Years ago we started an organisation for supplying milk to towns and it was a big success. But yet we have to import butter, cheese and even milk. In regard to butter and cheese we are not on the same high level as Holland and Denmark, and so we are going to introduce trade marks for butter, cheese, milk, eggs, etc., in order to complete with the foreign articles.

Chairman: In fact Mr. Ramdas Pantulu has pointed out in the paper he has circulated that our problem is also largely one connected with internal marketing. I understand from Mr. McDougall that his advice is that we should continue the arrangements now in force and try to develop them by propaganda, education and efficient management.

Mr. McDougall: Something more. You should have somebody responsible for examining the whole situation devoting his time and energy in searching into every corner of the whole system of agricultural production and distribution with particular reference to the distribution of your foodstuffs.

Chairman: Quite apart from the provincial organisation, I take it that your co-operative central organisation helps in matters of this sort before it fosters the establishment of any co-operative marketing society?

Mr. Ramdas Pantulu: We help the department with regard to these matters by sending all information to the Registrar. There is a non-credit officer attached to the department every-where. Hitherto they confined their business only to credits, but now a special man is attached to the Registrars who devotes himself specially to non-credit work and the central organisation has an advisory board whose members go and make investigations.

Chairman: To-morrow Sir T. Vijayaraghavacharya will tell us what the connection of his organisation is in this matter of marketing. I take it they are concerned with marketing for export as well as with internal marketing which as a matter of fact is the bigger problem in India at the present day. Quite apart from any central organisation, has Dr. Friederich got anything to add to what Mr. McDougall has said in regard to the question of internal marketing? You mentioned a subsidy from Government; can you tell us what that subsidy is?

Dr. Friederich: The first subsidies were given by Government about 30 years ago for building up the so-called corn houses. Government and many famous agriculturists were of opinion that it was really necessary to organise the marketing of grain, especially wheat, and they thought that by building up corn houses the marketing problem of wheat could be solved. They thought that wheat could be got into these corn houses and sold. In fact most of these corn houses were big failures. We have small farmers who produce wheat in the southern part of Germany, but there were various kinds of wheat produced and it was found most difficult to grade these kinds of wheat. They had to incur a large expenditure in grading the various kinds of wheat and when they took the expenditure into account, it was found that people got less money for the wheat than they would have got in case the wheat was sold without grading. Now the position is better, because propaganda is carried on for unifying the various kinds of wheat, so that in certain districts we get only wheat which is graded into two or three kinds; besides we get larger quantities of the same kind and it is much easier to grade them with the result that there is less expenditure than if you had to grade a lot of kinds of wheat.

Chairman: Therefore these corn houses are now proving of benefit to the movement, is that so?

Dr. Friederich: No, they are no benefit. We came to the opinion that carrying by rail is the cheapest warehouse. In that case the cost is cheap, so the co-operative societies do propaganda work in the matter of marketing and see that every member grows the special kind of wheat recommended by the Agricultural Chamber or by famous practical agriculturists in the district. In case every member is compelled to grow the same special kind of wheat, we can get bigger quantities of the same kind. Then it is of the greatest importance that the same threshing-machines should be used for threshing the grain. In my country now there are three kinds of wheat. The marketing society endeavours first to market the first sort or the best sort separately, then the second sort, and it is found that the third sort is mostly not demanded. Then these are collected; people can sell at any time they like but they have to sell to the society and the quantities are collected and put together into a railway carriage. If one society is not able to get a full load the stuff must be carried together with that of a society in the neighbourhood. We have central societies for certain districts. It is the special task of these central supply and marketing societies to see that such quantities, in case a society cannot get a full load, are brought together and sent as a carriage load to a mill or wholesale dealer.

Chairman: Therefore, the cash grants made for the construction of these corn houses in former times have been of no advantage?

Dr. Friederich: No.

Chairman: In what form is the State giving subsidies now?

Dr. Friederich: With regard to wheat we have duties; we are a country famous for protection.

Chairman: The protection is tariff; it is not given to the co-operative sale societies. What is the subsidy?

Dr. Friederich: Special subsidies are given for buying machines to co-operative dairies and then we have subsidies without interest.

Chairman: What I wanted to know was the nature of the subsidies. Are they cash grants or capital at concessional rates of interest or interest free?

Dr. Friederich: We have both, grants without interest and at low rates of interest.

Chairman: And bounties or cash payments outright also are given? It may be a cash grant not repayable.

Dr. Friederich: Yes, to a small extent.

Chairman: We shall pursue the question of marketing for export tomorrow and where Sir T. Vijayaraghavacharya's organisation comes in this matter of marketing; he may be able to tell us about sugar.

14th March 1931.

Chairman: We were discussing yesterday the internal marketing arrangements when we adjourned. We are not at the present moment discussing Mr. McDougall's ideas about what I may call the apex of the proposed arrangements, but apart from that, does any member want to ask any further questions on the subject of internal marketing?

Mr. Ramdas Pantulu: It would be useful to ask the experts generally about their opinion on the suggestions made by the Royal Commission on Agriculture for improving Marketing which were summarised in ten points in my note on Marketing.

Mr. McDougall: (1) Transport facilities—Improvement of Rural Communications: I agree, most decidedly.

(2) Railway freight rates and other railway facilities: Most decidedly.

(3) Establishment of Regulated Markets under Provincial Legislation: Most decidedly.

I did not go into these things because the Agricultural Commission had already done so in such great detail.

(4) Standardisation of weights and measures: That of course is so strongly brought out not only in the Royal Commission's report but in the reports of your Provincial Committees that again it is a question for me of emphasizing what has already been emphasized with very great care and ability.

(5) Measures to secure improved quality of export produce from producers—organisation amongst buyers and trade organisations: Most decidedly.

(6) Organisation for purposes of sale—Co-operative Sale Societies: Most decidedly.

(7) Auction sales by Agricultural Departments: Certainly where it is found by investigation that it is likely to lead to success.

Ch. Mukhtar Singh: Suppose there is a new variety of produce which the Department of Agriculture has asked the cultivator to grow. When it is grown the agricultural department ask the cultivators to come on a certain date and auction the whole thing.

Mr. McDougall: That refers to specialised articles such as seed.

Mr. Ramdas Pantulu: Varieties of produce.

Mr. McDougall: Speaking with a certain amount of reservation I can see no harm in it at all.

Chairman: These are the words of the Agricultural Commission: "We consider that auction sales by the agricultural departments provide a useful means of securing to the cultivator an adequate premium for the superior quality of a new variety grown under their supervision", *i.e.*, under the supervision of the agricultural department.

Mr. McDougall: I can see no objection.

Ch. Mukhtar Singh: Is it your idea that the agricultural department should make no profit out of it?

Mr. McDougall: Decidedly.

Ch. Mukhtar Singh: I want to draw your attention to it, because recently last year the Government of the United Provinces purchased an improved variety of cotton from the cultivator at the rate of about Rs. 4 to 5 and sold it at Rs. 10 and made a profit.

Chairman: That is not contemplated in para. 343 of the Agricultural Commission's Report.

Mr. McDougall: I should certainly take objection to it.

Sir T. Vijayaraghavacharya: I may say that the Central Provinces Government this year have embarked on a very large sale of a special variety of cotton encouraged by them just to help the cultivator.

Mr. McDougall: I entirely agree with that.

Ch. Mukhtar Singh: What do you say to the recommendations contained in paragraph 343 of the Agricultural Commission's report?

Mr. McDougall: Most certainly I heartily endorse them. Going back to the ten points:

(8) Market Surveys: Certainly.

(9) Expert-Marketing officer to be put on the staff of Agricultural Departments: I want that very much strengthened.

(10) Expert officer in Agriculture and Co-operation to be attached to India's Trade Commissioner and Director General of Commercial Intelligence and the appointment of special Trade Commissioners in other countries: I approve of that.

Mr. Devadhar: There is one matter I should like to ask you in this connection. When you have these expert officers in agriculture and co-operation with a view to furthering the movement of marketing in a better way, would it not be necessary for co-operative institutions dealing with articles like wheat or cotton to secure the services of some experts from Government departments for the purpose of grading? I may mention to you that in connection with the cotton sale society at Gadag there was a period when the whole of the local traders boycotted it and the only thing that saved that society and the cotton which they had put forth in the market was grading assistance for which was given by Government. Do you not think that it would be useful even at that stage to ask Government to give such society assistance to help them in grading?

Mr. McDougall: Decidedly.

Ch. Mukhtar Singh: I thought from the answer you gave yesterday that the expenses of grading should be borne in the first instance by Government.

Mr. McDougall: I think it would be very unsafe to lay down any principle with regard to that. If it is found as a matter of national

expediency, for instance that a certain thing has got to be done after investigation has been made by the department responsible and that the only possible way of bringing it into actual being is by Government support in one form or another, then must decidedly, yes.

Ch. Mukhtar Singh: For export purposes I think you said yesterday that grading should be done by Government officials.

Mr. McDougall: That depends entirely on circumstances. If the trade could be combined to do it for themselves, I see no reason why they should not do it; on the other hand, if it is found to be impossible to secure their hearty co-operation, it is not inconceivable that Government might pass legislation they could say 'very well, if you are not going to do it for yourselves, we must do it for you. It is in the interests of the country that our produce should be exported in the best possible form. In order to safeguard the interests of the nation as a whole, we are going to take it into our hands.' But I cannot attempt to lay down any hard and fast rules with regard to it.

Ch. Mukhtar Singh: If it is not done by the trade, then Government ought to do it?

Mr. McDougall: If you give me a year in your country and the assistance of innumerable committees and the advice of the department who have the knowledge at the present moment, then I might commit myself to definite statements.

Chairman: I think what you were referring to yesterday was a system of Government inspection.

Mr. McDougall: Where the trade cannot be combined.

Chairman: Where it can be combined you would leave the inspection not to Government, but to an agency of the trades people themselves.

Mr. McDougall: I think so, with some sort of Government supervision through the Marketing Board or through some other authority.

Mr. Devadhar: Here this statement occurs in regard to the Karnatak.

> "The departmental officers have frequently therefore to interfere and come to their rescue. With the progress of time the societies are getting stronger and will be able to continue to defy the opposition of the local merchants."

Chairman: That is perfectly correct, Mr. Mukhtar Singh was only referring to the export market and not to the internal market.

Ch. Mukhtar Singh: I thought that the opinion which Mr. McDougall expressed about the export market would also apply to the internal market, but I find that it is not so. Would you like to have any legislation on the point of adulteration?

Mr. McDougall: Yes; when it comes to adulteration it is a very different matter.

Ch. Mukhtar Singh: Government ought to intervene and make legislation on that point.

Mr. McDougall: Decidedly: We have many instances in, I should think, almost every country in the world. Butter for instance is a typical example and in almost every commodity of that nature. The moisture content must not be over a certain percentage. It is illegal to mix margarine with butter. Milk is dealt with in exactly the same way. If milk has not a certain fat and solid content, then people are fined; government inspectors are constantly watching the supply and in the interests of the public, taking samples.

Ch. Mukhtar Singh: You would like to see that whatever legislation is passed becomes effective. Nobody should be allowed to infringe that law and the hands of the Government could be strengthened.

Mr. McDougall: Yes. I, however, do not believe in passing laws which cannot be applied.

Mr. Khaitan: In discussing the question of grading I would like to discuss one or two things with you. My information is that in America there is a law about cotton, that certain grades are fixed and the sellers can sell only on the basis of those grades. I do not know whether that law is applicable to buyers and sellers inside the United States of America but I believe this is applicable when cotton is sold outside the United States of America. What is your idea about certain commodities about which India has a monopoly? Let us take Jute, for instance, or which India has got a monopoly. Would you advise that certain grades be fixed by legislation so that people can sell only on the basis of those grades.

Mr. McDougall: Yes. If after investigating the whole position closely and with the general approval of those who are competent to express their opinions on the subject it is decided that in the interests of the cultivators and the traders this should be done.

Mr. Khaitan: I will give you certain arguments that were brought forward during the last two annual meetings of the Federation of Indian Chambers of Commerce. At present there are no grades permanently fixed for the sale of jute and what happens is they begin with *threes*, then there are *fours*, the *rejections* and so on. These were the basis on which the purchasers used to purchase. Then during the season under the contracts when delivery has to be made on *fours* sometimes delivery will have to be made on *threes* and so on. The result was on account of the unfavourable appreciation in quality for delivery under contracts which were outstanding, the agriculturists who had to sell jute get lower prices during the season than otherwise they would have secured because of changing appreciation and depreciation in quality, declared by the borrowers. Would you therefore suggest that it is desirable that legislation should be introduced so that the grades may be permanently fixed with a view to help the agriculturists getting a fair price for their produce?

Mr. McDougall: I would most heartily support legislation if the position is as you have explained.

Mr. Khaitan: Have you got any experience of similar legislation in respect of hemp? I think there is some legislation in Phillipines.

Mr. McDougall: I am not aware of any such legislation.

Sir T. Vijiaraghavacharlar: I thought you would like to consult and gather the opinion of people concerned in the jute industry and trade before you contemplated such legislation.

Mr. McDougall: That ought to be done.

Sir T. Vijaraghavachariar: As far as possible legislation on these matters should have the consent of all the enlightened public opinion.

Mr. Khaitan: Circumstances exist that buyers will find it suitable not to give their consent in their own interests.

Sir T. Vijaraghavachariar: When the jute Committee is formed that will be one of the first subject to be tackled by the committee.

Chairman: The Royal Commission on Agriculture has recommended the appointment of a Jute Committee, and I would like to find out what has happened to that recommendation.

Mr. Khaitan: So far as I am aware the functions that are to be given to the jute Committee do not include the functions of grading.

Chairman: In paragraph 341 of the Report of the Royal Commission on Agriculture it is said "Appropriate action in respect of cotton can be, and is being, taken by the Indian Central Cotton Committee and similar action in respect of jute would be one of the first tasks of the jute Committee the establishment of which we have recommended in chapter III."

Mr. Chairman: So far as my information goes this is not one of the functions allotted to the jute Committee and I suggest that it is for us to consider whether we should not recommend to Government that legislation should be passed in regard to jute grading.

Sir T. Vijaraghavachariar: I understand there are three bodies of opinion in regard to this matter, the representatives of British interests, another Indian interests, then the cultivators.

Mr. Khaitan: So far as the Indian Chamber of Commerce and the Bengal National Chamber are concerned there is really no difference of opinion, but the difference is really between the buyer and the seller. The Indian interests are really looking after the interests of the cultivators while the European interests represented by the Bengal Chamber of Commerce always take up the interests of the buyers.

Sir T. Vijaraghavachariar: When the Jute Committee is appointed it will have a very balanced representation there. Everything will be done after ascertaining public opinion in this respect as was done in the case of the Central Cotton Committee.

Mr. McDougall: You can never get universal consent for any measure. In order to standardise the selling of meat the Ministry of Agriculture introduced a legislation for the proper grading of it. The traders were against any such measure. In such matters we will have to look more to the public opinion than anything else. So it was the case in Ireland when grading was introduced in the case of eggs. All the traders were against it, but still because it was for the common good of the country legislation was enacted. Therefore, all that I can say is that if it is proved by a proper tribunal that it is for the benefit of the country as a whole there is no reason why legislation should not be passed.

Sir T. Vijaraghavachariar: The Government of India have referred this recommendation to the local Governments of Bengal, Bihar and Orissa and Assam for report on the recommendations of the Agricultural Commission regarding the formation of a Jute Committee. Their proposals have been received and have been referred back for further report and

Government have promised that they will place the proposals before the Imperial Council of Agricultural Research for their opinion when Mr. Khaitan's point will certainly be taken into consideration when other interests will also have a say in the matter before legislation is launched upon.

Mr. Jadunath Roy: Is not this grading done by the beparies and others before a sale is effected?

Mr. Khaitan: It is not grading but it is only assortment that is done now, though the word assortment is sometimes used synonymously for grading.

Chairman: The Report of the Cotton Contracts Act Committee of Bombay of which our Vice-Chairman and Mr. Lamond were members have reported as follows in December 1930:

> "Closely connected with this question of quality surveys is that of universal standards, which do not exist in India but are a matter of great importance in the American system. It has been brought to our notice that a considerable difference may exist in the standards of different centres, as for example between those of Karachi and Bombay. It is true that the bulk of the cotton in India is actually sold on type and not on class, so that the question is not really so important in India as elsewhere; and it is also true that if the Bombay system of survey succeeds in establishing a reputation, Bombay standards will in this way indirectly spread throughout India. But we recognise that some universality of standard is most desirable, so that for example, what is known as 'Fine Bengal' in Bombay may be 'Fine Bengal' throughout India, in all places where there is an association controlling cotton dealings according to class. We recommend therefore that the Standards Committee of the East India Cotton Association should refer this question to the Imperial Council of Agricultural Research established by the Government of India and invite their assistance."

From this it seems to me that if the recommendations of the Royal Commission on Agriculture were accepted a similar arrangement could be made with regard to Jute.

Mr. Khaitan: There is no association in Calcutta which would correspond to the East India Cotton Association of Bombay. That association in Bombay is a creature of the Statute and all the varied interests in cotton are represented there. But with regard to Jute there are different associations who hold divergent views with regard to jute who have not been brought together, either by legislation or voluntary act of the traders themselves. Jute lends itself to easier grading and once the grading is fixed then it may be relied upon for quite a large number of years but with regard to cotton it is not so easy to make the grading.

Chairman: I was only concerned with the procedure. We have now gathered from Diwan Bahadur Sir T. Vijiaraghavachariar that the establishment of a Jute Committee is in contemplation and when the Committee is formed it will in collaboration and consultation with the Imperial Council of Agricultural Research devise ways and means of arriving at a proper solution of the problem.

Mr. Khaitan: That Jute Committee when formed would be quite a different Committee and it will be similar to the present Cotton Committee and therefore the analogy of the East India Cotton Association does not come in. What I was trying to get at from the Experts was their opinion with regard to this matter of grading to protect the interests of the agriculturist and I am glad that Mr. McDougall has agreed with me that legislation is the best solution of the problem if conditions are unfavourable to the producer.

Mr. Devadhar: Would you be able to tell us what proportion of the agricultural produce is dealt with by the co-operative marketing system in England?

Mr. McDougall: A regrettably small part only for the reason that England is a consuming country. The difficulties are therefore greater.

Dr. Friederich: In Germany the biggest percentage of the milk supply is organised on a co-operative basis. With regard to eggs, fruits and vegetables we have made a very good start.

Mr. McDougall: Scotland has progressed more in co-operation than England. There the milk supply is largely done by co-operative marketing. The wool-selling organisation is making very rapid headway. This organisation has been in existence for only 3 years and it has already captured about 15 per cent. of the wool trade.

Mr. Devadhar: You cannot say that the average co-operator in Scotland is not so well educated as he is in Denmark.

Mr. McDougall: No. The former is a consuming centre while the latter is an exporting country, Denmark entirely depends on her agriculture and her export trade for the production of her surplus wealth.

Mr. Ramdas Pantulu: I suppose 90 per cent. of the population in England are members of Agricultural co-operation?

Mr. McDougall: No, in co-operative buying organisations for the supply of manure, seeds, feeding stuffs, etc., a very distinct advance has been made. The progress made in selling organisations is slow, but it is gratifying to note an appreciable advance.

Ch. Mukhtar Singh: May I ask whether you are of opinion that the grading should be done only in the case of products like cotton and jute or would you extend it to other products as well?

Mr. McDougall: I would extend it to every commodity where research and investigation has proved it to be desirable.

Ch. Mukhtar Singh: Unfortunately in this country cotton and jute have alone attracted the attention of the Government and Committees because these commodities are dealt with by big business men. You are aware that the Royal Commission on Agriculture have said that crop committees could be formed if the requirements of trade so desire.

Mr. McDougall: I would like to extend the grading system to every commodity wherever practicable and possible.

Ch. Mukhtar Singh: My point is if jute is considered important hemp is not less important.

Mr. McDougall: There may be an difference in the degree of importance, that is all.

Ch. Mukhtar Singh: Suppose there are 6 grades in jute. The cultivator gets a higher price for jute just now because in the beginning there will be a margin between the highest and lowest grade and on account of that he tries to purchase the highest quality of jute. After two or three years the sellers say: We assess a lower value for the highest grade and a little less for the lowest grade. Thus there is left a very little margin between the highest and lowest grades?

Mr. McDougall: If that is the case then the selling organisation is wrong. I can imagine another situation arising where by standardisation and educating the farmer that the better grade is going to secure a better price, the best grade may to some extent fall in price because of increased output. That after all you cannot help. Those who at the present moment are producing the best grade may be in the minority. If the other farmers in the district supply good quality, naturally the man in the minority may not get as high a price but it is of great benefit to the majority.

Ch. Mukhtar Singh: Suppose the buyers combine and say they will not pay a higher price for this. I am speaking from a practical experience that we have had in this country. I think year before last all the sugar factories in Bihar combined and would not pay anything more than 5½ annas. While in other places the Sugar factories had to pay 7½ Bihar cultivator was forced to sell at 5½ annas.

Mr. McDougall: That situation can only be overcome by a strong combination of producers through co-operative societies or by Government intervention. If for instance a Marketing Board was established, it would be that Board's duty to investigate that position and use whatever pressure was possible with the Government behind it. Not necessarily by introducing legislation, but moral pressure to start with. If that is insufficient it is not inconceivable that legislation might be required.

Ch. Mukhtar Singh: You would recommend that before the situation becomes acute?

Mr. McDougall: Certainly.

Ch. Mukhtar Singh: Of course. You have said something about the fruit purchases. I may tell you for your information that the Bombay Provincial Enquiry Committee has found that the grower gets one-third the price the consumer pays and certain cases the grower gets only one-ninth.

Mr. McDougall: It is not inconceivable. I have known many cases as bad as that.

Ch. Mukhtar Singh: How would you like the idea of gradation?

Mr. McDougall: It is by grading and systematised marketing that cultivators in many other countries have saved themselves. There is nothing that is more hopeless in the world's market than to attempt to sell fruit in an unorganised way. Of all classes of commodity that, more than anything, requires most careful systematic organisation.

Ch. Mukhtar Singh: Who would begin it?

Mr. McDougall: The marketing department would do all the necessary research work in conjunction with the Research Board whose business it would be to point out where these possibilities are for growing fruit. If there is any possibility the Marketing Board should do propaganda work through the co-operative movement in these districts. You would say to them: According to advice of the Bureau of Investigation this is an ideal

country for fruit. At the present moment your land is worth let us say Rs. 200. Grow this class of fruit, combine in the marketing of it and your land may become worth Rs. 1,000. The only way to do it is, as I have tried to describe, by research, by organisation, by teaching the cultivator what his land is capable of and then by organised marketing.

Mr. Devadhar: In your fruit organisation you would include also the other end? There was a committee appointed called the Mangoe Committee. They organised a co-operative society but because it was not possible for Government or others to have a similar agency in Bombay they could not do anything by way of giving relief to the man who really produced the best mangoes.

Chairman: Am I correct in assuming that in other countries, generally speaking, this grading is started in regard to exportable commodities because their grading is of more interest to the producer and that without the grading that particular commodity will not find a favourable place in the world's market?

Mr. McDougall: Generally speaking, yes.

Chairman: That apparently explains the attention paid in India to both cotton and jute. Coming down to fruit and vegetables, where the stuff is consumed largely locally is it possible to have any grading?

Ch. Mukhtar Singh: May I interrupt? I submit that there are a number of vegetables and fruits which we can produce for the export market. Just now there will be no peas in Poona, while we at Meerut are producing a large quantity. If we export them from Meerut to Poona we get money out of it. The internal market is as important as the external market.

Mr. McDougall: The internal market as I described it yesterday and as your Chairman has described it now is quite different to the export market say from Quetta to Calcutta. Now at the present moment I do not know whether Quetta is taking steps to grade its fruit or not, but at any rate I have been informed that fruit comes into Calcutta in considerable quantities from California, and other centres. That Californian fruit lands in Calcutta properly graded, properly packed, the retailer who buys it knows that he can depend on quality. He says: I want a dozen boxes of oranges, let us say for example of the Sunkist variety,. He does not need to bother about the quality at all. He simply buys the fruit at the current price. Now with regard to the Quetta oranges, he is a long way from Quetta and he is not in direct touch. Unless that trader can depend on the grade and the packing then it is a distinct handicap to him if he cannot have the assurance that he is buying a standard quality.

Ch. Mukhtar Singh: Do you mean to say that if the Quetta people grade then there is the possibility of getting a good market in the country?

Chairman: But is that correct so far as India is concerned? This Californian fruit finds a sale in the Calcutta market not because of its grading, but because of its cheapness. If I went to the market in Calcutta to buy fruit I certainly would not try to find out about the grading. I would want to know about the price and if the orange selected by me was dearer than the Californian orange I would naturally take the Californian orange. Mr. Roy would be able to confirm that.

Ch. Mukhtar Singh: Don't you see both quality and price? In India, unfortunately, the Railways are not sympathetic. The whole system is wrong.

Chairman: That is a position to which I cannot subscribe. If the Railway affects the produce and by that means fruit produced in Calcutta is not cheaper than the Californian fruit, that is the only factor which would enter into the consideration of a large body of the people.

Ch. Mukhtar Singh: What I submit is this—if the Californian fruit grower is producing his fruit at a cheaper rate than I am doing at Quetta, then certainly he has a right to sell his fruit in Calcutta. If he is producing at the same rate as I am, he has no right to come into my country. It is due to something wrong with the railways—they will not introduce cold storage, etc.

Chairman: As India now stands that comparison will not be possible for years.

Ch. Mukhtar Singh: It will come in this way—is it possible for the Californian people to send into India any fruit they like? No. They would first see which quality can go to Calcutta and remain undeteriorated. They can send only that and nothing else. They have found out that they can sell their things cheap because they grade it and they ask the fruit grower to produce only those.

Chairman: From the point of view of the fruit and the taste of a large body of the people that consideration does not come in.

Mr. McDougall: Quality must be taken into account as well as price.

Chairman: But in India for internal consumption it is not the grading but the price that matters.

Ch. Mukhtar Singh: I think the Indian market is very disorganised. There is no grading or anything of this sort. You are not sure what things you are getting.

Chairman: Even if there had been grading it is purely a question of price.

Ch. Mukhtar Singh: If you go to the market can you buy ghi—the pure ghi that you want you cannot get in the whole market. I would pay double the price that I am paying today if I could be sure of getting the pure ghi.

Chairman: But you are talking of adulteration and not of grading.

Mr. Ramdas Pantulu: I personally would prefer that we should ask Mr. McDougall questions on his paper, on marketing especially with regard to jute and so on.

Chairman: I am afraid the discussion has flowed into wider channels. Having discussed what I call internal marketing we will proceed again with page 2. I do not know whether much discussion is required. The experts have said that they are satisfied from the investigations they made that this is not an over statement. I do not know what these investigations are. On the other hand there is a whole chapter on marketing in the Punjab Report and we can draw our own inferences from what is stated there.

Ch. Mukhtar Singh: Under the circumstances that exist in Punjab when a man takes his produce to a trader and the trader says it is not according to the standard, etc., and refuses to buy at the rate he said he would, the man is forced to sell it at a lower rate. Do you Mr. McDougall allow that in your country?

Mr. McDougall: Where you have such a case you should certainly take steps to improve matters for yourselves by organising yourselves into a marketing organisation. I think the instance you give is grossly unfair.

Ch. Mukhtar Singh: Would you not make it penal if the marketing does not improve, that is when a man settles the price and then forces the cultivator to give it at a lower price?

Mr. McDougall: It would seem to me rather a difficult thing to bring in legislation with regard to that. You cannot do anything unless you get the cultivator to help himself by organisation. Is that not a better way?

Ch. Mukhtar Singh: Is it not a breach of contract?

Mr. McDougall: It would appear to be a breach of contract and if you can remedy a state of affairs like that by passing legislation which can actually be made effective I have no objection.

Ch. Mukhtar Singh: It will always depend on public opinion as to what is criminal law and what is not . . . .

Chairman: Mr. McDougall's point is can you make legislation effective, and that is a big if. The next statement is that it has been . . . a Gilbertian state of affairs. Diwan Bahadur may be able to tell us what the facts are.

Sir T. Vijaraghavachariar: My statistician made some calculations. His estimate of the stock of wheat in the Punjab is about 166,000 tons. The stock of wheat in the whole country is supposed in the neighbourhood of 3·8 million tons.

Mr. McDougall: This information was given to me in the Punjab. I am not responsible for the statement.

Mr. Khaitan: The misunderstanding has arisen like this. In June or July last the Government of India issued a communique on the position of the previous year's production, and on the basis of annual consumption in India they stated that a million and a half tons of wheat would be the surplus available for export after consumption. Now, since then some wheat has been exported, I believe it is about 3 lakhs tons, so that out of 15 lakhs tons 3 lakhs having been exported, there is still a surplus, according to these figures, of just about 1¼ million tons in the whole of India. In the case of the Punjab the figure might be a mistake, but since then what has happened is that the price of wheat having gone down considerably people are consuming more wheat. Crores and crores of people who used to live on one meal a day, are able to eat more on account of the fall in wheat prices. They eat about two meals a day and therefore the consumption of wheat has increased, and it is quite possible, as Sir T. Vijayaraghavacharya tells us, that the quantity now available as surplus is about 3·8 million tons, instead of 1½ million tons. But that would be for the whole of India. It would not alter the situation if we cut out the surplus lying in the Punjab—the argument would still remain.

Sir T. Vijayaraghavacharya: As a matter of fact it is an estimate—all these figures are estimates.

Mr. McDougall: I am entirely at the mercy of those who advise. If my advisers are wrong it is not my fault. The explanation of the difference between the 500,000 tons to which you refer and the million odd tons which those people who are supposed to be authorities and who may not be authorities stated, is this: that owing to the extremely low price and to the lack of getting a free market even at that low price there is far more stuff lying with cultivators than you can possibly realise. Of course I cannot verify—it is utterly impossible—but it is a feasible proposition to put forward, that during a period of such trade conditions as we are going through just now, with incredibly low prices, when he is only receiving a trifling sum per acre for his wheat, he gets dispirited and says to himself, 'What is the good', and leaves the wheat lying about, and the loss in this way must be enormous. It did strike me that there were possibly some grounds for the statements that I have heard in the Punjab about price. In fact I think the price of wheat in the Punjab is several points above the world parity.

Mr. Buckley: It is only one point.

Mr. McDougall: Even at that one point above the world parity the price of wheat just now is so incredibly low that I can well understand the cultivator being dispirited and leaving his grain unsold.

Chairman: Then comes the real point; wheat has been landed even at Karachi.

Sir T. Vijayaraghavacharya: I have not verified the figure about Karachi. The complaint is about the landing in Calcutta of Australian wheat. Sea freight is really cheaper than railway freight.

Ch. Mukhtar Singh: The freight from Australia to Calcutta is 8 annas a maund while from Lahore to Calcutta it is Rs. 1-12-0 a maund. Had Government reduced the rates then you could speak definitely of the volume of surplus, not otherwise. First they gave a large figure, now they say there is less quantity of wheat.

Chairman: We have got the Dewan Bahadur's estimate of 166,000 tons for the Punjab. That is the information in his possession. His is not a Government Department. It is an independent body.

Ch. Mukhtar Singh: It is that body that made that investigation.

Sir T. Vijayaraghavacharya: We are dealing with permanent questions. I think it would not be safe to draw any kind of inference from the figures of the current year which is one of very exceptional circumstances. They should be taken with very great caution.

Ch. Mukhtar Singh: That brings the point in relief that the very rate makes it impossible for the cultivator to sell his goods.

Chairman: We are coming to it. A proposal has been made that the import of wheat should be prohibited. In between really comes the point of Ch. Mukhtar Singh, and I do not find it at all stated in this paper that it is really a question of price. If it were possible to sell this Punjab wheat

in Calcutta at a price, even the same as that of the Australian wheat, the position so far as Calcutta is concerned would not have been improved and therein comes Chaudhuri Mukhtar Singh's statement that it is the heavy railway freight rate which has led to this state of affairs, and that point is not at all brought out here.

Mr. McDougall: The steamer freight is not the only freight that the Australian wheat has to pay. It comes from inland to ports, it has got to be handled, pay warehouse charges and other expenses before it is forwarded to Calcutta. I think if you are going to make an exact comparison between the Australian wheat and the Punjab wheat you will have to take the actual costs of distribution from the inland market in Australia to the port and then from the port to Calcutta.

Chairman: As it is, in regard to that it is suggested somewhere in one of these documents in regard to Australia that she has the advantage that the bulk of the transport is by sea—this is in one of the papers of the American Farm Board where they explain why they cannot compete with Australia: they suggest that in Australia the transit by land is practically negligible. I do not know much about the details, but it is suggested somewhere that that is the position in regard to Australia.

Mr. McDougall: The Australian wheat belts are not on the shores; they are not situated immediately along the ports. Many of the Australian wheat belts in Western Australia, for example, are unquestionably at considerable distances inland.

Sir T. Vijayaraghavacharya: Is that important for our purpose unless we wanted to compare the cost of production in Australia.

Mr. McDougall: I do not suggest that it is. You have raised the question of freight, and I am pointing out that if you are going to take freight into account in this discussion, you should also include freight charges from inland town to port, warehouse charges, very high costs of labour.

Sir T. Vijayaraghavacharya: I imagine there is comparatively cheaper production in Australia. I have not investigated the point.

Mr. McDougall: The two cases are so utterly dissimilar that it is quite impossible to build up any case at all. The Australian costs per acre are very low because they have an enormous acreage per man, but here the acreage is small and it would be very unsafe to argue the Indian point of view from costs per acre.

Seth Haji Abdoola Haroon: We have also to consider the difference in the land taxes.

Ch. Mukhtar Singh: Australia prohibits the import of wheat while they export it.

Chairman: That according to Mr. McDougall is a lazy man's remedy.

Mr. McDougall: Where you have a commodity which the country is not producing in sufficient quantities to supply its own requirements and which it can produce in sufficient quantities to meet all its requirements if the country decides that it is in its interests to stimulate the production of the commodity, that is an entirely different matter. I can see at once the enormous advantage arising from such a policy.

Sir T. Vijayaraghavacharya: All that I can tell you is that the Council has already asked for a reduction of rates.

Mr. McDougall: As a matter of fact, rather than giving protection, I should prefer you to help the wheat producer by means of reductions in railway rates.

Mr. Devadhar: Why not all grains?

Mr. McDougall: That is a question of national policy. I have no objection.

Sir T. Vijayaraghavacharya: We have asked that the whole question of agricultural products including agricultural machinery and rates should be examined by competent men in consultation with us.

Sir T. Vijayaraghavacharya: I am very much interested in Mr. McDougall s ideas of a marketing Board. What are your ideas about this organisation.

Mr. McDougall: I should like a Board constituted on the lines of your Council.

Sir T. Vijayaraghavacharya: Would you have a single man as the head of the marketing section? There is such a thing as provincial jealousy of Central Government in India. In connection with our Research Council this difficulty was got over by allowing the provincial legislatures to be represented by their ministers on it in a majority. 9 out of 19 belong to the provinces, there are two representatives of the central legislature.

Mr. Ramdas Pantulu: I was told the central legislature is not representative of the agriculturists of the country.

Sir T. Vijayaraghavacharya: As a matter of practice the ministers really get their own way on the Governing Body, because they act together most being representatives of provincial interests. 9 ministers from Madras, Bombay, Bengal, U. P., Punjab. Burma, Bihar and Orissa, C. P., and Assam, are on the Governing Body, and in addition there are now the representatives of Hyderabad and Mysore. In reality it is the ministers who decide our policy. I want to draw your attention to item No. 2 in this Memorandum* of Association. You will find that marketing of agricultural produce is one of our objects. I was trying to relate the new body which you propose to this body. How would it work if the Co-ordinating Expert was one of the experts of the Agricultural Council? The Council has got a number of wholetime expert advisers who really direct several of its activities.

Mr. McDougall: My first objection against that is that I doubt if you realise the magnitude of the task of this marketing organisation. The amount of intense research required will be very great. Representatives of various trades will have to be consulted. The Marketing Board will have to try and find out a way through this almost impenetrable forest of tradition, custom and difficulties of all kinds. I base my marketing proposals on the enormous importance we western people now attach to systematic marketing. Leaving out China, India has by far the biggest population in the world. It requires assistance in this way from the point of view of progressive economics to a greater extent than any other. The work of the Research Council is in itself a Herculean task, and I should dread throwing on the Research Council the task of organising maketing. The work which you are now doing may suffer. Here it is not a local question, it is a question of the well-being of 300 millions of people. The difficulties are greater than in any other part of the world, that is speaking without any disrespect to your country.

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* Not printed.

Sir T. Vijayaraghavacharya: It is a question of mere expediency. I was merely thinking of this. You want unity. There must be one man who would not be responsible to any other member of Government.

Mr. McDougall: Undoubtedly. I have already explained with regard to the co-operative council that the first thing that passed through my mind was that this should be a separate Department altogether. I decided that greater harm than good would result in having at the same time a co-operative Department of State and a Ministry of Agriculture: instead of there being co-ordination, as time went on, there might be the reverse of it. Exactly the same argument applies here. Your Council of Research must work in closest co-operation with this body.

Sir T. Vijayaraghavacharya: I admit we want a separate body. I mean in this way unity of control is secured by a new Director of Marketing or whatever you may call him, who will have a committee to help him. You could have a separate section of this Council as the Marketing Board. The reason why I suggest is this. You have got a body which has got over the feeling of central *versus* provincial. As a matter of fact we have set up marketing committees like the Sugar Committee.

Mr. McDougall: That may be.' But you, Gentlemen, who are in touch with research work in all its aspects, you are concentrating on that line or what revolves round that. Your organisation is built up for that purpose. It is true you are doing marketing, but it is subsidiary. Now it is not inconceivable that even from that point of view the Directors of that organisation would not do justice to marketing. You are being asked to undertake too much. It would be far better in the first place to establish a separate marketing organisation. You have already accepted the principle of a co-ordinating authority. I cannot believe that provinces who have accepted this as a means of co-ordinating agricultural research throughout India would object to a similar body being established for an equally necessary part of the economic life of the country.

Sir T. Vijayaraghavacharya: You have to remember that their acceptance is due to the fact that the provinces have on the Governing Body a deciding voice. If you want their acceptance for the new Marketing Board you should have a governing body on similar lines, and let the provinces have the final say.

Mr. McDougall: If your very considerable experience finds that the constitution as framed works satisfactorily I do not object. I accept your experience.

Sir T. Vijayaraghavacharya: The difficulty is this. If you get ministers on the marketing board and ask them to come for its meetings local Government will probably protest against ministers having to come too often for central functions.

Mr. McDougall: I should prefer if Ministers would appoint their representatives on the marketing board. I see no reason why they should not. The representatives should be men with a thorough knowledge of the marketing conditions of their provinces.

Sir T. Vijayaraghavacharya: What I was contemplating is probably really the same thing as yours. I was contemplating a marketing officer in every province and one marketing expert for all India who will be at the head of these marketing experts, who will be the guide, philosopher and friend of these people.

Mr. McDougall: The head must have considerable staff at his command.

Sir T. Vijayaraghavacharya: He will have a Secretary. That marketing expert in my scheme will be a reality. He would be an expert agriculturist himself and his committee would be a section of the Council and will consist of members who have knowledge of marketing procedure in India. That is to say, there are about half a dozen men on the existing Council who are interested in marketing, and they with a few additions would form the advisory council. But the final disposal of all these matters will rest with the Minister and the Governing Body. An advantage of this scheme would be that from the beginning it would not be a new organisation but would be said to be a branch of the existing organisation and provinces would not feel that they have been done out of their powers.

Mr. McDougall: My information with regard to your country is so limited that I cannot commit myself. The principle of a Marketing Board is what I am out for. That, I must insist is all important. If you accept the principle, then I consider that the details should be worked out by those who are fully conversant with the actual administrative difficulties which you have to contend. You must take into account the harmful effects which would arise from attempting to throw too much work on one organisation.

Sir T. Vijayaraghavacharya: After all, take the Governing Body. They have not much work to do in that sense. All the technical work is done in the provinces and by different people. This is not peculiar to India, it is the English feeling too, they object to experts.

Mr. Ramdas Pantulu: All that your Association has to do according to the Memorandum of Association of the Council is merely to carry on experiments, "experiments in the science, methods and practice of agriculture (including the marketing of agricultural produce)." The limitation is very clear.

Sir T. Vijayaraghavacharya: Once the Marketing Board carries on experiments, the actual performance of the day-to-day administration rests with the provinces. The Articles of Association only permit you to carry on experiments, you cannot organize marketing.

Chairman: Mr. McDougall himself said that the establishment of the Marketing Board will require years of research. You cannot take up any particular subject without years of research.

Mr. McDougall: Generally speaking that may be. For instance the Board might not be sitting for a couple of months when it may discover some easy way out of a difficulty.

Chairman: Anyhow there must be research before you can start.

Sir T. Vijayaraghavacharya: Once research is done, the actual execution must be given to the provinces.

Mr. Devadhar: The funds at present come from the Central Government and there is no burden on the provincial Governments. Would it not facilitate matters if funds were provided by the provincial Governments?

Chairman: Funds will facilitate the work only at the research stage.

Sir T. Vijayaraghavacharya: The whole question is one of funds and if you leave it to the local Governments you will get no move on.

Mr. Devadhar: Therefore, it is an additional ground for the consideration of the question.

Sir T. Vijayaraghavacharya: Take agricultural research. We enter into research, carry out research, but the minute research becomes a recognised fact, it passes into the realm of ordinary day-to-day practice and we hand it over to the province to carry on. That is why we take up all schemes only for five years in the first instance, the idea being for experiments to be conducted during this period of five years.

Mr. Devadhar: I am mentioning this just now, because when we were discussing something about federal institutions, Mr. MacDougall's difficulty was about such organisations being brought into existence, *e.g.*, how the Imperial Council of Agricultural Research came into existence and came to be accepted. The main factor, there, is that the funds came from the Central Government.

Sir T. Vijayaraghavacharya: That is one thing. The second reason was that the provinces have the outstanding voice. We get rid of jealousy by putting the provinces into a position of superiority by votes in the Governing Body.

Mr. Devadhar: You gave them representation without taxation.

Sir T. Vijayaraghavacharya: That is true.

Mr. Ramdas Pantulu: Research is a central subject.

Sir T. Vijayaraghavacharya: Yes, that may have to be altered.

Chairman: In addition to what you have said, research into marketing is already one of the functions of this institution and from the practical point of view, it will be adding to the difficulties of the position by taking it out of that body and entrusting it to some other body until it is established that this body has failed to function in this particular direction.

Mr. McDougall: I think it would be unfair—perhaps I should not even use that word but I do not want to be misunderstood—to suggest that I am making these suggestions because I do not think that the Research Council have done their work. I consider that the Research Council have done an enormous amount of valuable work for India in the time they have been in existence.

Sir T. Vijayaraghavacharya: There is no question of prestige or anything. The question is the best machinery suitable for the purpose with reference to practical considerations. I prefer your scheme intact except that instead of putting this new Director in, I would put in a separate *ad hoc* body under the governing body of the existing Council. In practice that would give me full scope to get on with. One section of the Advisory Board of this Council would be formed into a separate marketing section like our Sugar Committee which would deal with marketing questions.

Mr. McDougall: You are trying to catch me in a very charming manner, but I feel that knowing or believing in the enormous importance of marketing, I could not commit myself to putting this Board in the hands of the Research Council. It is only the principle of a really strong Board that I am out for. I admit that my limitations with regard to the knowledge of your country are so great that it is not possible for me definitely to make up my mind about it. I should very much prefer, if you accept the principle, to suggest that our Chairman, yourself, one or two of the other experts of the Committee, the Agricultural expert of your Council a representative of the Ministry of Agriculture and your co-operative experts here, who know far more about the country than I do, should settle the business.

Chairman. I would leave the question at that. What is the position in Germany? Have they got a Central Marketing Board like the one suggested by Mr. McDougall?

Dr. Friederich: There is a special department for marketing under the Ministry of Agriculture.

Chairman: And how is it composed of? Have you Government staff?

Dr. Friederich: The Ministry for Agriculture summons meetings of representatives of Chambers of Agriculture, representatives of co-operative organisations and representatives of wholesale trade and commerce. In these meetings all important questions with regard to marketing produce are discussed and a final decision rests with Government. The majority of the Reichstag has to decide whether any legislation brought forward is to be accepted or not.

Sir T. Vijayaraghavacharya: I want to find out from Mr. McDougall whether there is any corresponding organisation in England.

Mr. McDougall: Yes, very much the same as Dr. Friederich has said. In the United States you have a great Marketing Bureau under the Federal Government. It is an enormous concern.

Chairman: After having started an organisation as an annexe to the Imperial Council of Agricultural Research, it may be found that progress requires the establishment of a separate body.

Sir T. Vijayaraghavacharya: I should leave that to time. The point is, the more simple an organisation set up is in the beginning, the more easy it is to work. It is possible that its activities may increase, that is natural historical process.

Mr. McDougall: I should like it to be so constituted at the commencement that every possible opportunity is given it for developing from the very start on sound lines.

Sir T. Vijayaraghavacharya: Under my proposal it would get an absolutely free hand. I am trying to remove the fundamental psychological and political difficulties.

Mr. McDougall: Sometimes it is better at the very commencement to recognise the difficulties and face them. The line of least resistance is often the most dangerous.

Sir T. Vijayaraghavacharya: In your answer you raise difficulties for the purpose of theoretical perfection.

Mr. Khaitan: Why do you call it 'theoretical perfection?' The function of marketing is very much different from the function of Agricultural Research which your Council is carrying on at present.

Sir T. Vijayaraghavacharya: I do not know. We have ordered extensive researches and enquiries into the economics of production.

Mr. Khaitan: I find from the Rules and Regulations of your Council that the members, among others, include a Member of the Council of State and two Members of the Legislative Assembly, and the first members of the Governing Body are my colleagues Mr. Ramdas Pantulu, representing the Council of State and Mr. Mukhtar Singh and Mian Muhammad Shah

Nawaz representing the Legislative Assembly. So far as marketing is concerned, I am at a loss to find out the proper point of view represented in the constitution.

Chairman: I find that there are representatives of the Associated Chambers of Commerce and of the Federation of Indian Chambers of Commerce and Industry.

Sir T. Vijayaraghavacharya: In order to represent new sides of activity which may spring up we have a general provision by which we may add to our Council as we want.

Mr. Khaitan: Is it your suggestion that when you constitute a Marketing Committee, if you constitute it under the Imperial Council of Agricultural Research, it would be a separate Committee formed with some additional persons?

Sir T. Vijayaraghavacharya: Yes, but I propose that the Governing Body should be the same.

Mr. Ramdas Pantulu: Other experts can sit on the Committees.

Mr. McDougall: You would be prepared to have your Governing Body as it stands just now with a separate Committee for Research and a separate Committee for Marketing.

Sir T. Vijayaraghavacharya: Yes.

Mr. McDougall: Again I am not prepared to commit myself, but your scheme is attractive.

Sir T. Vijayaraghavacharya: As a matter of fact it is the feasibility of the scheme that appealed to me and suggested to me this idea. Ever since I had the good fortune of meeting you three weeks ago and discussing this matter, I have been thinking of this question and my first idea was to send two members from our Council to serve on your Marketing Board and two or three members from the new Marketing Board to serve on our Council, but after thinking the matter over, I considered that this proposal would get rid of all the difficulties, at the same time secure the points you have in mind.

Mr. McDougall: All that I can say is that if you are prepared to have on your Governing Body representatives of the various provinces together with separate Committees as required, one for Agricultural Research and one for Marketing, your proposal becomes much more attractive in my mind.

Sir T. Vijayaraghavacharya: It will be necessary for us to have a separate Committee for Veterinary Research also. Our constitution is so framed that we can get any number of committees for different subjects.

Chairman: You said that the Marketing Officers in the provinces should be under a Central Officer. You mean that in regard to administrative control?

Sir T. Vijayaraghavacharya: The easier way of dealing with matters is not to call this man superior to those people under the Ministers, otherwise we shall excite provincial jealousy. The Central Officer would never inspect the provinces, he would simply visit the provinces and advise them. In practice we find on the Research side that our Advisers make a similar call. It is a much more effective way of doing things.

Chairman: You also wanted to discuss Mr. McDougall's proposal about an all-India Co-operative Council?

Sir T. Vijayaraghavacharya: It is not a portion of my programme, but I am interested in the subject as every agriculturist is interested in co-operative societies. I should like to hear what Mr. Ramdas Pantulu has to say as to how he will get over the provincial difficulties.

Mr. Ramdas Pantulu: I already indicated the other day that if we were going to have any Central Council it should be purely advisory, it in no way having control. I think that after a good deal of discussion Mr. McDougall is now prepared to make a statement that after all he is not quite sure whether the agriculturist's interest is better secured by a Central organisation and the Central Legislature than by provincial organisations and provincial Legislatures where people are more interested in him, and if he makes that concession, I have nothing more to say. At present we have two non-official organisations, one for Provincial Banks and another for provincial Institutes. Every province in India has got a Provincial Bank except the United Provinces. All of them put together has an Apex organisation called the All-India Provincial Banks' Association which deals with credit and finance, gets financial returns from each of the Provincial Banks and advises its banks to send their surpluses to other banks and so on. There is an Institute called the All-India Co-operative Institutes Association on the education propaganda side, the head office of which is in Bombay and Sir Lallubhai Samaldas is the President. These are purely non-official organisations. I do not say they are functioning very efficiently, but they are doing some kind of propaganda work. Mr. McDougall's point is that there ought to be a much more efficient body whose functions he has mentioned in his memorandum. I was trying to ascertain from you whether co-operation also can come within your all-comprehensive Research Council.

Sir T. Vijayaraghavacharya: I have examined that question with reference to a remark which some gentleman addressed to me. Let us proceed step by step. Take the marketing of agricultural produce. In the new marketing activities, have we not for instance to provide for agricultural credits?

Mr. Ramdas Pantulu: Look at page 4 of Mr. McDougall's paper on "Land and the Cultivator" where he refers to the objects of a Central Co-operative Council. I think he has agreed to let some part of object (*b*).

> "to organise and control an educational centre for the training of an efficient staff in the principles of co-operation including banking, accounting, agriculture, rural economics and social welfare".

be taken up by provincial institutes.

Mr. McDougall: If funds are available, by all means let provinces undertake a very considerable amount of work with regard to education.

Mr. Ramdas Pantulu: (*a*), (*d*) and (*e*) are very general, they will certainly comprehend your research and other schemes; live stock is there.

Sir T. Vijayaraghavacharya: So far as any provision for agricultural credit is concerned, with a view to increase either production or efficiency of distribution, it will probably come in, but I imagine that many of your

co-operative societies lend not only for such purposes, but also for, say, marriages. It would be difficult to bring it under agriculture. We are beyond our constitution.

Mr. Ramdas Pantulu: The Fertilisation Committee were thinking of co-operative banks for financing industrial societies.

Sir T. Vijayaraghavacharya: If you are authorised to do a particular act, you are authorised to do all the acts which are necessary to enable you to carry out that particular act. We have taken up certain industries, because we want to help the agriculturist and find him a market for his commodity in the finished product.

Mr. Ramdas Pantulu: Can we set up another sub-committee for your research and experiments with regard to these industries?

Sir T. Vijayaraghavacharya: The only question is this: I do feel that in the objects you have laid down for a Central Co-operative Council you are so very much trenching on the provincial field that when provincial Ministers are brought in to discuss the proposals they would probably very strongly object to these things. For example, do you think that your Ministry at Madras are likely to consent to these things?

Mr. McDougall: I have eliminated control in all cases except a control of the educational centre.

Sir T. Vijayaraghavacharya: I do feel that we can go into the field of co-operation generally. If, for example, by setting up co-operative societies in connection with sugar we can increase our production or the efficiency of production, certainly we can set them up under our own powers.

Mr. McDougall: I have not mentioned co-operative credit.

Sir T. Vijayaraghavacharya: I think that in respect of many of these matters—I am reading them for the first time—it strikes me that you will probably run counter to the provincial susceptibilities.

Chairman: Mr. McDougall has practically agreed to that. In fact there is only one point of disagreement between Mr. Ramdas Pantulu and himself and apart from that Mr. McDougall has agreed that these are matters for the Co-operative societies to decide between themselves.

Mr. Devadhar: What has the State to do with regard to popularising restrictions against adulteration? Is it merely legislation with which it concerns itself or methods of propaganda through press and so on?

Mr. McDougall: Certainly, the Ministry of Agriculture in England have become expert propagandists by using the press. I have heard it said that the press is giving propaganda to the Ministry of Agriculture to the extent that would cost any ordinary firm a quarter million pounds a year.

Mr. Devadhar: If you have perused the columns of our papers you will have noticed that even if they be business advertisements they are displayed in the terms of swaraj. In other words what I mean to imply is that there is a very large section of reading public in this country who are nationalistic in outlook who would not care to peruse matters which are not of general interest to them.

Mr. McDougall: My conception of the ordinary press representative in this country is that he is patriotic in outlook. He is out for the

advancement of his country and if the press are made to realise the enormous advantages that will accrue to the country ultimately by creating public opinion in favour of agricultural development it will give assistance and do an enormous amount of good.

Mr. Devadhar: I mention this because there are two difficulties at present. The first is the illiteracy of the people and the second is, that constituted as we are at present, certain classes of newspapers will not make room available for such propaganda, because they know their readers are only interested in politics.

Mr. McDougall: That was exactly the opinion held by myself about 20 years ago and by the great majority of agriculturists; fortunately for the country it was possible for the Ministry of Agriculture to influence the press in such a way as to make them realise the situation and their duty towards the public. I believe that you can do the same thing in this country. I have heard that there were very few villagers who do not have read to them at least one newspaper. I started an enquiry on that line and when I asked how many people in India would have known of the Indian Round Table Conference a Civil Servant told me that probably only 10 per cent. of the population would have known about it. In the villages I went I found it was more.

Mr. *Devadhar*: I simply wanted to get at your idea whether by creating public opinion through the medium of the press something useful could not be attained?

Mr. McDougall: I entirely agree.

Mr. Devadhar: You say that "during the last decade grading in western countries has become almost universal for all products. Canada was the first country to standardise grades". I suppose by "all products" you mean the prominent products?

Mr. McDougall: Yes. I wanted to draw your attention to the necessity of creating such a situation in your country as well. I tried to emphasise the picture in your interest.

Mr. Devadhar: Later on you say "In our opinion, the decline of the indigenous banker and of the internal financial organisation of the country is partly due to antiquated methods of marketing". How will you connect the decline of the indigenous banker, in Punjab for instance, with the business of the well regulated marketing in that province?

Mr. McDougall: I discussed this matter with my banking colleagues. They accepted the argument. I myself am not a banker. May I ask what is the proportion of people who are dependent upon the co-operative movement for their credit?

Mr. Ramdas Pantulu: Only 11 per cent. of the population are touched by the co-operative movement.

Mr. McDougall: 89 per cent. is a very big margin that is left out.

Mr. Devadhar: You cannot say that it is entirely due or largely due to lack of organised marketing?

Mr. McDougall: I only say it is "partly" due to that.

Mr. Devadhar: One of the ideas which you have thrown out is to build up marketing. Would you have some kind of legislation for that?

Mr. McDougall: If your Marketing Research Council after consultation with the trade and with the co-operative authorities decide, that the creation of public godowns or warehouses would be to the interest of the public, then as an agriculturist, I will support whatever Government legislation might be removed.

Mr. McDougall: I do not put much stress on the opposition of the trader. In Oxfordshire the dealers actually signed an agreement amongst themselves binding themselves under penalty to a market. When a friend of mine came to me and said: you are up against a stiff proposition. I laughed at him and said it would only kill the market if the organisation is wrong.

Mr. Devadhar: Because you had a class of people to deal with who could understand. There is the question of self-interest, but in addition to self-interest there is the other factor also, the illiteracy of the people. When they see things done before their eyes then they will be quicker to follow. But until then I certainly think this part of the work will be very necessary.

Mr. McDougall: Oh yes I entirely agree.

Chairman: If we are to admit that this is one of the causes of the decline in the position of the indigenous banker we must admit that marketing conditions have deteriorated in recent years. I will ask my banker colleagues here whether they think there is anything in this proposition based on their own experience. The argument is this, when "goods become sticky and difficult to clear" bills become dangerous, therefore consideration should be given to this part of the problem. In our opinion the decline of the indigenous banker and of the internal finance organisation of the country, is partly due to antiquated marketing. Now, we have been told that the circulation of the hundi" has declined in recent years.

Mr. Lamond: In my opinion the bill was not a trade bill but mere finance paper.

Chairman: And that has declined?

Mr. Lamond: Yes.

Mr. Buchley: That is so.

Chairman: Mr. Roy what is your view?

Mr. Roy: I believe it is good from the moffussil . . . .

Mr. Khaitan: The position so far as I know, the conditions may be different on the Bombay side but as far as this side is concerned, in the U. P., Bihar, Calcutta, finance bills do exist and did.

Mr. Lamond: I am not saying that they have gone out. They still exist.

Mr. Khaitan: Those would be local bills. Those would not be bills drawn from one place on another place. In regard to marketing the bills that have come would be those drawn from one place upon another, which we call bills of exchange. As regards the finance bills so far as

these portions are concerned, although to a certain extent they exist in big centres like Cawnpore, Amritsar and those places, the bills I believe Mr. McDougall is talking of are not those local finance bills. They still exist but not so much as formerly.

Mr. Lamond: I would not even like to say they had been reduced. I don't think the volume of bills has come down.

Mr. Khaitan: The volume of bills cannot be reduced because the quantity of goods remains the same. Furthermore if we take banks and indigenous bankers both into account the volume of bills has increased because of the transportation facilities having been increased and more goods move now from one place to another than used to happen 25 to 30 years ago.

Mr. Lamond: The currency of these bills is very short. It is about 15 days.

Mr. Khaitan: That is one difference which has come in. Formerly the practice was to draw 60 days sight bills and at that time bills were freely discounted in the market. Now they are only 15 days or 30 days at the most, just to cover the period of transit. That is changed because the discounting facilities that formerly used to exist are now reduced and that again is because of the fact that many of the deposits have gone into the banks or the Post Office cash certifiates or treasury bills. In answering my questions, Mr. McDougall, please do not think I am not in sympathy with suggestions made to organise better marketing facilities. I am quite in sympathy with any proposal that is made to improve the marketing facilities but when you talk particularly about the bill market you say at the bottom of page 3 "when goods become sticky and difficult to clear bills become dangerous". Now if we assume the premise then the conclusion would of course follow. Before the year 1930 did you get any information that goods became sticky and difficult to clear?

Mr. McDougall: Generally speaking I should think that it has become increasingly difficult, taking the Punjab itself, for the traders to carry on as the world market was gradually becoming congested, say from 1926-27 onwards. My whole point is this, that at a time like this a disorganised market has a very much greater effect when the world's market is congested with stuff and the people who suffer most are those with the worse organisation.

Mr. Khaitan: Before the year 1930 is it your information that there was any difficulty in regard to the clearance of wheat or cotton?

Mr. McDougall: Not the same difficulty as at present, but there has been a gradual decline in prices for the last two or three years.

Chairman: Here comes in Mr. Lamond's point. The bills are either finance bills, that is bills you use before the goods were moved, or they are bills of exchange, that is used in connection with movement of goods. Now the stickiness can only apply with regard to the first class, because once goods have been consigned, and once people know that these goods can be exported out of the country surely there cannot any longer be stickiness?

Mr. McDougall: These goods have to be exported ungraded against graded goods from other parts of the world.

Mr. Lamond: Do not forget the point that all the goods in central India are shipped after sale.

Chairman: I am surprised that this was agreed to by your other colleagues because in discussion with us they fully realised the position in India. The goods are sent down after sale and the operation is completed. Fall of prices does not matter. The goods have been bought by somebody at some place, it may be one of these big firms or it may be somebody outside the country. That having been done there is no difficulty about obtaining money in the bills of exchange. That is in regard to the second class of transaction. The first class of transactions would be covered by finance bills. In regard to finance bills again it seems to me inconceivable that there will be that effect. But I am not a practical banker.

Mr. McDougall: I am not a practical banker either, Mr. Chairman, and I am very much at a disadvantage in trying to argue out a case on behalf of this statement. I am afraid it would require the support of my banker friends who accepted this and who discussed it with me.

Mr. Lamond: I discussed this question with Lala Harkishen Lal and we both came to the conclusion that it was the method of joint stock banking in the Punjab. You have the Punjab National Bank, the Peoples Bank of Northern India.

Chairman: That we have in the evidence before us, therefore, when I found it here I was taken aback. Obviously it will not be fair to pursue the matter with Mr. McDougall. We must leave it at that.

Ch. Mukhtar Singh: On page 1 of the Marketing paper as well as in the other paper you seem to be giving us the advice that the improvement of agriculture should be attended to and that we should produce more. There are two methods by which this can be achieved. Either it must be a national policy of this country, that is the country stands in need of these articles which we produce and therefore the cultivator should be asked to produce more of those articles. In that case the country will have to provide the cultivator with subsidies or with the losses he may incur in producing more. Do you agree?

Mr. McDougall: At such a time as this . . . . .

Ch. Mukhtar Singh: I am speaking of normal times.

Mr. McDougall: Well with regard to ordinary times, if the cultivator is going to secure anything like a reasonable income out of his holding where he has a very small bit of land to cultivate. . . . .

Ch. Mukhtar Singh: That is not my point. It is this. If the cultivator finds that it is a paying job to produce more he will do it. But in that case the nation has no right to demand that he shall produce more if he cannot produce it at a profit.

Mr. McDougall: But the nation will not compel the cultivator to produce more.

Ch. Mukhtar Singh: Take the case of production of sugar in England. It was found that it would not pay to produce sugar but nevertheless the nation wanted sugar produced, therefore they had to provide a subsidy.

Mr. McDougall: In such a case as sugar where the nation can consume more than it is producing. . . .

Ch. Mukhtar Singh: I do not say England was wrong in following that advice, or that we shall be wrong in following that advice with regard to certain other commodities. If you will agree that your advice to the cultivator is to produce more with the idea of a national policy, then it does not matter whether he does it at a loss to himself or whether it is profitable to him. If there is a loss the nation will provide for it.

Mr. McDougall: It is all a question of profit. If the cultivator can produce 15 maunds of a certain commodity per acre and by a properly organised market can dispose of whatever surplus the country does not need abroad, then that cultivator would be distinctly better off. Under normal conditions I advise increase of production because by all known laws of agricultural science it is going to pay the cultivator to produce more than to produce a very small quantity in normal times.

Ch. Mukhtar Singh: Then you advise it because you consider it to be more profitable. There is another point. Would you agree to the principle that the smaller the holding the less will be the return on the capital?

Mr. McDougall: I am afraid that would require a very long argument. Not necessarily. That is not even the case in the United States.

Ch. Mukhtar Singh: I have just taken this from the Businessmen's Commission America. It is on this principle.

Mr. McDougall: I do not agree with that. Our agricultural economist was out in the United States this autumn for two or three months. I had not the opportunity of meeting him for any lengthy period but we discussed the development of agriculture in America and he indicated that according to the research which he made into the statistics available in the Bureaus of the Federal Government in America the middle sized farm there was the most economical holding and gave the best return on the capital invested. It all depends on how these holdings are conducted, and what the actual conditions are. There is not the slightest doubt that it is the intensely cultivated holdings—I think I have used the illustration of the Channel Islands in England that produce a remarkably high percentage of profit per acre, infinitely more per acre than the profit out of a 10,000 acre grain farm.

Ch. Mukhtar Singh: I quite agree. If it is a small holding and it is intensely cultivated then it is likely to produce more.

Mr. McDougall: Not only likely to produce more but the actual income per acre is more.

Ch .Mukhtar Singh: Well I don't agree. You say in a country like India it is the export market which makes the price, not the price at home. Does that mean that because India is a country where anybody can send his articles therefore it is regulated by the export market? Suppose there is rice selling here at Rs. 3 a maund and at another place it is selling at Rs. 2/8 and the difference in freight is 4 annas, naturally the merchant may not import that article. Still he calculates it and there is always the danger that the produce will sell cheaper and therefore the rate is low. Do you agree? In submitting this statement I take it that our rate in India for agricultural commodities depends upon the export market because it is a free trade country as far as agricultural produce is concerned?

Mr. McDougall: If you had protection in this country your internal price would undoubtedly be higher.

Ch. Mukhtar Singh: And it would not be controlled by the export market?

Mr. McDougall: But if you were actually exporting that commodity I question whether your internal price would be any higher.

Ch. Mukhtar Singh: Take the case of Australia. It is an exporting country but at the same time it protects the import of those articles which it exports, so the result is whenever any merchant wants to calculate he has to take into account the custom duties on those articles. Therefore the difference is much higher.

Mr. McDougall: To my thinking protection of agriculture in Australia by tariff on imports of wheat or imports of wool is simply silly.

Mr. Mukhtar Singh: It may be silly. But my point is this, suppose the import duty were there, Australia would have been in the same position as India is, that is the price in the internal market would have been dependent on the export market.

Mr. McDougall: The export price in Australia is dependent on the world market so far as wheat and wool are concerned. In commodities in which Australia is not producing a sufficient quantity to supply her own requirements then that is a very different matter.

Ch. Mukhtar Singh: Take the case of wheat. There is a customs duty of 2 shillings per cent. Suppose we put on a duty of Re. 1 a maund. Then the result would be that the Australian wheat would not come into this country unless the internal rate would go down which would give them 1 Re. *plus* freight charges.

Mr. McDougall: You use the analogy of Australia. Do you suggest that in the event of Australia taking off that tariff that any wheat would go to Australia?

Ch. Mukhtar Singh: That is not my point. There may be no country which may be able to export wheat to Australia but the very fact that it is 2 shillings per cent. will make the internal market higher by 2 shillings. In the same way in India we could keep our market rates on wheat 1 rupee higher . . . . .

Mr. McDougall: I am not on expert protectionist. All I can say is, if you have a surplus of wheat, I very much doubt if any benefit would result from protection?

Ch. Mukhtar Singh: My point is this: whether the price would depend upon the world price even after India has put an import duty on wheat, or would the internal price be higher by the duty levied.

Mr. McDougall: I very much doubt it. I have already explained myself. I cannot add anything further.

Chairman: I understand (to Mr. McDougall) you are referring here to the price of the crops which are exported.

Mr. McDougall: Yes.

Ch. Mukhtar Singh: You say on the first page that there should not be any more production unless we organise the export market. Till the time we have organised the export market the increased production should not materialise.

Mr. McDougall: It will take a long time.

Ch. Mukhtar Singh: On page 2 there is a small error. You say wheat and barley are produced as a mixed crop. This is not correct. Wheat is grown with gram, barley with peas. I may just tell you that a mixed crop would be very advantageous from the agricultural point of view, because if one crop fails the other will succeed.

Mr. McDougall: I can see that. We have some mixed crops in England.

Ch. Mukhtar Singh: There is a market in the country for mixed crops and therefore they are not separated. A mixed crop will not really be a very great disadvantage or in any way a drawback in our way of exporting the produce outside the country.

Mr. Lamond: There is 50 per cent. barley in wheat.

Ch. Mukhtar Singh: That is not due to the fact that barley and wheat are grown together: that is due to the fact they are threshed together.

Mr. Lamond: Sometimes it is possible that the trader mixes barley with wheat to get a better price.

Ch. Mukhtar Singh: On page 2 you say that we are importing wheat from Australia though there is sufficient wheat at Lyallpur. I have told you already that it is because of the railway freight. As far as the lazy man's remedy is concerned I may tell you that France has a duty of 2*d*. to 3½*d*.

Mr. McDougall: France does not grow enough wheat for her requirements. Neither Germany.

Ch. Mukhtar Singh: U. S. A. is an exporting country, she has a duty of 3*d*. to 3½*d*.

Mr. McDougall: I do not think it is a safe analogy. You would get very few people to admit that the duty on wheat is responsible for raising the price there.

Ch. Mukhtar Singh: They might have made a mistake. What about Australia.

Mr. McDougall: I have already told you about Australia. I am only trying to be practical.

Ch. Mukhtar Singh: In England you have a duty of 2*s*. S. Africa has a duty. There are a number of other countries which have a duty on wheat.

Mr. McDougall: In the case of the U. S. A. and Australia I would call them paper duties. It would be interesting to know how much revenue Australia has secured from wheat.

Ch. Mukhtar Singh: It may not have secured any. To my mind in that way they do not allow the internal rate to be affected by the export rate.

Mr. McDougall: You may be justified in thinking so. But as a farmer I have no hesitation in advising you not to build up your case on protection of commodities which you have a surplus of. I would strongly advise you to concentrate all your energies on those things that you are not producing enough of.

Ch. Mukhtar Singh: We are those unfortunate people who have never in our lives got any subsidies or protection. On page 5 you say, 'The establishment of cooperative marketing will in such a country as India be slow.' What is the force of the words 'in such a country as India.' What are the main disadvantages?

Mr. McDougall: The special difficulties are these. I had to describe some yesterday. You are a great consuming country. You have a great many small shop-keepers with whom you are surrounded, and your sale societies have got to enter into active competition with them, and unless you have carefully planned and well-managed organisations they will find it very difficult to do so.

Ch. Mukhtar Singh: There will be more competition in this country as elsewhere.

Mr. McDougall: I had to point out yesterday that those countries that are predominantly exporters of produce—you are not predominant exporters of produce, you are predominant consumers of produce—have an enormous advantage in establishing co-operative agencies. This give them the foundation to work on, and co-operation through other agencies becomes comparatively simple. I pointed out that even in Holland they have a very successful co-operative export agency working, the internal trade of the country, as in Germany, is very largely in the hands of ordinary distributors.

Ch. Mukhtar Singh: In the case of an export commodity or an exporting country it becomes rather easier because the interests of producers are the same, while in the case of internal consumption they are not so much the same.

It is only my experience in my own country for the last thirty years that has compelled me to write such a paper as this which indicates caution, but nevertheless keeps to the goal in view, however slow you may be in arriving at it.

Ch. Mukhtar Singh: As regards fruits do you consider that there would be no possibility of developing a market unless we make a special effort to introduce, canning, preserving and storing the fruits: unless these are taken together, it will be difficult.

Mr. McDougall: I think that on the whole it is so and that you would do well to try and develop canning, as well as regularity of supplies. In England we neglected canning, but very considerable strides have been made in the last year or two in establishing factories for taking up the surplus. On that point I was very fortunate in meeting a gentleman the other day. He knows a great deal about fruit growing in places like Quetta. He told me that a distinct development has taken place within the last year or two. He said he was in touch with a canning factory who realised the possibility of that distirict for development and were anxious to establish a canning factory there. They hesitated to do it because they could not be assured of a regular supply. You are not making much in the way of preserves just now.

Ch. Mukhtar Singh: We not only make, but we export preserved, pickles, etc.

Mr. McDougall: Preserved pears?

Ch. Mukhtar Singh: Preserved mangoes.

Mr. McDougall: You have a monopoly of these. I think you have large possibilities for the sale of fresh mangoes.

Ch. Mukhtar Singh: That cannot be developed without storage facilities. We are the only producers of mango in the whole world, but the world does not get them. It is only a question of cheap and quick transport in the case of vegetables and fruits.

Mr. McDougall: Absolutely. I will give you an example from my own country what has happened in Scotland in the development of canned fruit industry.

Mr. Ramdas Pantulu: On page 5 you speak of a marketing society in Madras. It is a consuming store. We find it cheaper to buy from the wholesaler.

Mr. Khaitan: It is a very good certificate to the middleman.

Ch. Mukhtar Singh: I am very thankful that you have given a good remark for the Indian artisan when you say the Indian workers are the most skilful in the world. Would you agree with me, being illiterate and financially bad off he does not get much out of his skill, and his difficulty cannot be removed unless there be some method by which he can be provided with new, better and simple tools and also sufficient financial aid.

Mr. McDougall: That is so.

Ch. Mukhtar Singh: I do not want to discuss the matter with you because we shall have another paper on that point from Dr. Friederich.

Dr. Friederich: Yes.

Mr. Ramdas Pantulu: On page 5 you say it is a small society, it has 6,000 members.

Mr. McDougall: I shall be very glad to change it.

Ch. Mukhtar Singh: You have pointed out the different factors that go to develop the economic position of the cultivator. But would you say whether you could agree with what I will read just now from p. 37 of the Final Report of the Agricultural Tribunal of Investigation:

A. The system of land tenure, including the provision of small holdings.

B. The fiscal organisation of the country and in particular the assistance to agriculture.

C. The system of general education and the special provision for agricultural education and research.

D. The economic organisation of the industry and in particular the development among farmers of co-operative methods of purchase and sale, co-operative credit and insurance.

E. The institution of schemes for the improvement of livestock and crops, the standardisation of produce and the control of weeds and vermin.

F. The organisation of transport, the provision of power and wireless, the assistance of subsidiary rural industries and the development of afforestation.

G. The development of State or voluntary organisation to provide the necessary central and local machinery for carrying out the various measures of agricultural policy.

Mr. McDougall: I agree with them entirely.

Ch. Mukhtar Singh: On page 1 you say that the soil of India is poor. Wherefrom did you get that information?

Mr. McDougall: I have seen the statement in books.

Ch. Mukhtar Singh: It is said that India's soil is very rich but it is the cultivator that has spoiled it. Of course that you have said also. As far as the soil is concerned nature has endowed us with a very good soil.

Mr. McDougall: I am quite sure in western literature it is not an uncommon impression that India has a naturally poor soil. It is not my impression.

Ch. Mukhtar Singh: It is perhaps so in places where the depth of soil is very low, I do not want to deal with it, it is not important. You say there are other factors, deplorable waste of manure by its use as fuel. I may point out that the Agricultural Commission enquired into this matter, and they came to the conclusion that unless you provide the cultivator with another fuel it is impossible to avoid this waste. So it is not the ignorance of the cultivator or his wastefulness, it is the absence of fuel, that is responsible for this. You must have learnt that even within 50 miles of a forest you cannot bring fuel to the cultivator at a reasonable cost.

Mr. McDougall: Before the Railways were developed in England there was some part of England where they used cowdung for fuel: this is 150 years ago. When I was in the Punjab I was shown an advertisement of the Railway Board for 50 tons of cowdung.

Ch. Mukhtar Singh: It was perhaps for tempering steel. Obviously it is not for Government further to impoverish the country of its manure.

Mr. Devadhar: In some of the towns there is a regular trade.

Ch. Mukhtar Singh: It has been brought out in the report of the Royal Agricultural Commission that if the consumption of cowdung is confined only to domestic consumption where there is no fuel, there will be enough farmyard manure. As a matter of fact they are not wasting it, though with economy and greater care more farmyard manure can be secured.

Mr. McDougall: In one place in U. P. there has been education of the villagers and more manure is used on land.

Ch. Mukhtar Singh: I feel there has been no investigation from another point of view. What is really the heat value of cowdung? Has it been calculated?

Mr. Ramdas Pantulu: Its calorific value has been estimated?

Ch. Mukhtar Singh: In comparison with its manurial value what is its calorific value?

Ch. Mukhtar Singh: I shall be obliged if you will tell me what percentage of nitrogen manure contains; as far as I know it has not been investigated.

Mr. Devadhar: I remember the Director of Agriculture in the Punjab making a statement that it was considered cheaper to use fuel.

Ch. Mukhtar Singh: You have suggested that the small holding of the people is not responsible for their poverty and that they could get much more than they are getting provided they have scientific methods of manuring. But may I tell you that the report of the Businessman's Commission on Agriculture informs us that to feed a horse three acres are required in the United States. What do you consider it necessary to feed a human being? I have put the question bluntly, but I could not help it. I put it to you because you are an agriculturist.

Mr. McDougall: If you kill two-thirds of the population there is no doubt that the standard of living amongst the other third will be improved if a stable government is assured. Whether it is to the good or advantage of the country or not is a very different story.

Ch. Mukhtar Singh: Either we kill two-thirds or divert them to colonisation elsewhere, or we create a revolution in the country so that two-thirds can be killed by one-third and one-third remains. The two-thirds have to be got rid of somehow.

Mr. McDougall: If you take my advice, you will try to leave them alone. You will try to keep the simple and beautiful life I see in the countryside. One of the happiest impressions of my life in the future will be to look back on the life of these simple villagers.

Ch. Mukhtar Singh: If you had come with me, I would have shown you the wretched condition in which these poor men live their lives.

Mr. McDougall: I expected to come away with profound depression, but I have not. If I were to be given the choice between living the simple life of the cultivator in India and the life of the industrial worker in a big industrial city, I know which I would prefer.

Mr. Devadhar: Industrial village or agricultural village? In some American book I came across the phrase 'industrial village'.

Mr. McDougall: I would rather be an agriculturist than a worker in the Southern States of America in some of their cotton works just now.

Mr. Ramdas Pantulu: This is the passage referred to in the report of the Businessman's Commission on Agriculture:

> "As under our average crop yields at least three acres of land are necessary to grow the hay, oats and corn required for feeding one horse during one year, it will be seen that the disappearance of more than 5 million horses since 1910 has permanently released at least 15 million acres of crop land".

Ch. Mukhtar Singh: I shall just take you to another passage in the Report of the Royal Commission on Agriculture:—

> "The Punjab figures which are the only figures available for a province indicate that 22·5 per cent. of the cultivators cultivate one acre or less; a further 15·4 per cent. cultivate between one and two-and-a-half acres 17·9 per cent. between two-and-a-half and five acres and 20.5 between five and ten acres. Except for Bombay which would probably show a very similar result and Burma which would give higher averages, all other provinces have much smaller average areas per cultivator".

That practically shows that our holdings are too small and therefore it is impossible for us to support the cultivator on the area that he possesses.

Mr. McDougall: I really cannot make myself responsible for advocating that drastic reduction in your population which you suggest.

Ch. Mukhtar Singh: I do not say that. I simply say that to me it is a surprise that the Indian cultivator lives.

Mr. McDougall: It does not surprise me, because it is not so very long ago since, according to history, parts of Scotland were relatively as heavily populated as parts of your country.

Ch. Mukhtar Singh: At that time there was no industrialism in the world. The cultivator could produce his own requirements and live as a self-sufficing unit. Would you advise us to go to that civilization?

Mr. McDougall: I would stick to that simple life.

Mr. Devadhar: Is this advice of yours a counsel of desperation?

Mr. McDougall: No.

Mr. Devadhar: This is the conclusion you have come to after seeing the beauty or the poetry of our life here?

Mr. McDougall: I think you have a fine type of cultivator, and I have a most profound admiration for him.

Ch. Mukhtar Singh: I wanted simply to tell you that the acreage per cultivator is too small, though you have put it at an average of 10 acres. By far the greater number of cultivators hold less than this.

Mr. McDougall: That is so.

Ch. Mukhtar Singh: How did you get the figure of 10 acres per cultivator?

Mr. McDougall: I got it from the Secretariat, I am really not responsible for it and I shall be glad to alter it according to the best statistics.

Ch. Mukhtar Singh: The area cultivated is 27 crores and dividing it by the population, it comes to about 5 acres per family.

Mr. McDougall: It is more than I thought it would be. I have made it very clear that by far the great majority of the cultivators are farming a great deal less than 10 acres.

Ch. Mukhtar Singh: On an average it ought to be 5 acres. Then as regards percentages, I have pointed out that 22·5 per cent. occupy only one acre or less, while 15·4 per cent. between one and 2½ acres.

Mr. McDougall: I accept your figures.

Ch. Mukhtar Singh: If you compare the figures with England and Wales, you will find that in England and Wales the percentage is 1·1 between 1 to 5 acres and it is 5 from 5 to 20 acres. It is 9·7 per cent. from 20 to 25 acres and the total under 50 acres is 15·8 per cent.

Mr. McDougall: There are many thinking men at the present moment who deplore these figures.

Ch. Mukhtar Singh: Then you will understand the difficulty of the cultivator if he has to live on one acre of land.

Mr. McDougall: I understand the difficulty quite well and I am not in disagreement with you.

Ch. Mukhtar Singh: In the case of Germany the figures are as follows:—

Under 1¼ acres	1·1	per cent.
1¼ to 5 acres	4·3	,,
5 to 12½ acres	10·4	,,
12½ to 50 acres	32·7	,,
Total under 50 acres	48·5	,,

This shows that the holding in India is the smallest.

Mr. McDougall: Yes, Japan and China are both smaller than India.

Ch. Mukhtar Singh: China is as bad as we are and in Japan I think the percentage of population living on land is much smaller as Japan is an industrial country. Therefore they produce those articles which pay them most. We cannot do it in India.

Mr. McDougall: Japan has always been a very closely populated country with very small holdings.

Ch. Mukhtar Singh: The percentage of population living on land is about 43.

Mr. McDougall: I wonder if the Japanese industrial labourer is any happier than yours are.

Ch. Mukhtar Singh: 73 per cent. of the population are living here on agriculture and there is very little left to them to do. On an average the people are poor and therefore the cultivator cannot produce articles which would be required for a man living as an ordinary rich man. Suppose I grow fruits or vegetables, to whom shall I sell them? That is why except in small areas attached to the different towns you do not find the cultivator taking up vegetable. On the other hand, if you industrialise the country, you will find a larger area inhabited by rich people for whom we can produce such articles like fruits and vegetables.

Mr. McDougall: As a member of this Banking Committee, neither I, or any of my colleagues have said anything against the development of India industrially.

Mr. Devadhar: Mr. Mukhtar Singh is only referring to the diversion of a certain population from agriculture to industry.

Mr. McDougall: I accept all that.

Ch. Mukhtar Singh: Then you said that in Denmark they have succeeded in building up the most productive agriculture in the world. I quite agree with you there, but you cannot compare India with Denmark, because the average holding of the cultivator there is 40 acres and in Holland it is 26.

Mr. McDougall: I have a distinct recollection of having read recently that the small holdings in Denmark produce more per acre than the large holdings.

Ch. Mukhtar Singh: That will be a different problem. I was asking you whether you consider it a business proposition for the cultivator to live on such a small holding as he does in India. I shall come to the improvements presently. To my mind the improvement is not an easy job.

Mr. McDougall: I quite agree with you.

Ch. Mukhtar Singh: Would you agree with me that water is the main thing for improvement in Agriculture. That being so, have you ever calculated the amount of money that will have to be invested in order to provide ample water facilities to this country?

Mr. McDougall: It must be very great.

Ch. Mukhtar Singh: I may tell you that for productive canals the cost per acre to Government is Rs. 35 and if you include unproductive canals also, the cost per acre is Rs. 46. If you multiply 46 by the 27 crores of acres under crop, it will be a very very big figure. Then again canals cannot be provided for easily everywhere. I can tell you from my own experience that on a farm of 60 acres I have had to spend some Rs. 12,000 in order to provide the necessary facilities that are needed. That is Rs. 200 an acre. If you go to Bombay, the cost per acre would be much higher and still it is doubtful whether water would be available. It is not very easy to provide so much money.

Mr. McDougall: I quite agree.

Ch. Mukhtar Singh: Now coming to manures, you will be surprised to know that the freight charges for artificial manures are very much lower than the freight charges for pottassium nitrate which is available in the country and bone meal also available in the country. I think the best manure to my mind would be leaf-mould which is available in any quantity.

Mr. McDougall: Leaf-mould from chemical analysis is not good manure. One of the things that struck me with regard to land is the extreme lack of humus in the soil. There is nothing but pure soil. The humus in the leaf-mould would be of enormous advantage as it assists in the conservation of moisture in the soil and would otherwise be of very great benefit.

Ch. Mukhtar Singh: Leaf-mould would be a good manure so far as India is concerned.

Mr. McDougall: Not so much as manure, but because it has other effects.

Ch. Mukhtar Singh: Generally all these things are considered to be manure and so I have used the word manure. It is not an easy job to make improvements in the land.

Mr. McDougall: It is not an easy job to the farmer any more than making money is.

Ch. Mukhtar Singh: There are three items in which an improvement is possible. I have told you about water facilities; it is a very costly affair and to expect a poor agriculturist to put in money is not an easy job and I doubt very much if he can recoup it. About manure I have told you the difficulties of the manure available in the country, but as far as chemical fertilisers go, we do not produce these articles as a bye-product and their absence will naturally be a handicap. Therefore you will agree that it is not an easy job.

Mr. McDougall: I entirely agree that it is not easy.

Ch. Mukhtar Singh: I may tell you that in Bombay the cultivator using these chemical manures is spending Rs. 900 an acre in producing sugarcane, and now he has found that the crop will not yield much and he is practically in a very bad condition. Then again look to our other difficulties, *e.g.*, agricultural implements. These will have to be scientific. Perhaps you may be surprised to hear what the Royal Commission on Agriculture have to say on this point

Mr. McDougall: But I have not disagreed with the Royal Commission on any of these points.

Ch. Mukhtar Singh: I am referring to something else. The Royal Commission have pointed out that:—

> "Agricultural implements in India are on the whole well adapted to local conditions. They are within the capacity of the drought oxen, comparatively inexpensive, light and portable, easily made and what is perhaps of even greater importance, easily repaired, and they are constructed of materials which can be readily obtained. * * * The Agricultural Department have, however, so far done disappointingly little in this direction".

We have been looking to the Agricultural Department and this is what they have done. As regards manure too, they have pointed out that the Agricultural Department did not give them any data on which to proceed.

Mr. McDougall: The new Research Institute is doing considerably more work than the Agricultural Department was; research into all these agricultural conditions takes time.

Ch. Mukhtar Singh: I am simply pointing out that in a country where the Agricultural Department has existed from 1868 they have not been able to find out the best agricultural implement for this country, nor what the best manure for this country would be. Still you say we should improve. How can we improve with such staff to advise us?

Mr. McDougall: My arguments this morning were exactly on your lines. The Research Institute is in favour of taking up these items.

Mr. Ramdas Pantulu: But it never reaches these people.

Mr. McDougall: We shall try to reach them through the proposed Marketing Board.

Mr. Ramdas Pantulu: The Research Council's publications are in English, they should be in the vernacular.

Mr. Devadhar: Rs. 25,000 have been spent for the preparation of cinema films dealing with agriculture and veterinary advantages.

Ch. Mukhtar Singh: You have nothing to teach the agriculturist?

Mr. McDougall: I am not prepared to agree with you. My information is extremely limited, but one or two of the societies which we saw in the Punjab and one which we saw in your own province, especially the former, gave us statistics to show that there was a very distinct improvement because of the application of the research work done by the Lyallpur College in their farming society.

Ch. Mukhtar Singh: Do you know how the reports of these societies are prepared?

Mr. McDougall: The report was given to us by the people there.

Ch. Mukhtar Singh: Suppose a village in a certain place, say Lyallpur, grows 2 maunds more per acre by using a particular variety of seed, and suppose 12,000 acres are grown. Nobody would take the trouble to enquire how many people failed and whether the crop has really given an increase to every cultivator. They simply multiply 12,000 by 2 and for 24,000 maunds say at Rs. 3 a maund, they say that Rs. 72,000 have been put into the pockets of the agriculturists. That is the method adopted in this country in arriving at these figures.

Mr. McDougall: That may be, but I am giving specific instances where all the cultivators were gathered around us talking in a friendly way in this society in the Punjab and in another instance in your own province, my distinct recollection of what the cultivators themselves told us (not what the Government officials told us) was that because of the use of improved ploughs and improved drills they had increased their output.

Ch. Mukhtar Singh: If you had gone to Bombay and seen the Bombay drill that the cultivator was making, perhaps you would not have been surprised. It costs him only Rs. 15.

Mr. McDougall: So much the better. I say that all these things the farming society is doing has an obvious effect on the output per acre of these people and they were very well satisfied.

Ch. Mukhtar Singh: I am driving at two points: one is that the improvement in agriculture is not an easy job to take up to.

Mr. McDougall: I am entirely in agreement with you.

Ch. Mukhtar Singh: The second point I want to impress is that the Indian cultivator is intelligent, though he is illiterate, and he knows the principles of conservation of moisture, etc., and he has been given a very good certificate by the Royal Commission on Agriculture.

Mr. McDougall: I entirely agree.

Ch. Mukhtar Singh: The only point that remains for me is why the yield is low. It is low because the percentage under irrigation is very low. I may give you the figures. The total cultivated area is 27 crores.

Chairman: I think Mr. McDougall is prepared to accept the statement of Ch. Mukhtar Singh.

Mr. McDougall: Yes.

Ch. Mukhtar Singh: I have noticed in a book "Recent Development in German agriculture" written by an Englishman where the author has said that small holdings do not attract the man in England. So it is the case here in this country. Educated young men who have graduated themselves in Agriculture and other allied subjects do not take to land themselves. What I mean to say is that a man with a head who had the average intelligence is not attracted by land because he thinks that he will be wasting his life for the sake of earning a few rupees. That being so to say India would improve by improving her agriculture will not be a proposition on which we can rest our conclusion.

Mr. McDougall: I do not agree. If you improve the position of the ryot the standard of living will also improve ultimately. We have got to decide whether we are going to leave things as they are.

Ch. Mukhtar Singh: My point is that if we recommend like that our recommendation will be ridiculed. As a matter of fact 73 per cent of the people are living on land and land cannot provide sufficient occupation for such a large proportion of the total population of this country.

Mr. McDougall: It is all a question of comparison but if you compare Ireland to England, at the present moment Ireland is a country of small holdings while England is not. The small holder, in my opinion, is the only person in the world who could defy all the economic laws of the world.

Ch. Mukhtar Singh: I may point out that in all those places where there are small holdings at least the dairy industry is allowed to remain there. But in India even that industry cannot be developed. The position is a starving man cannot feed his cow properly when he is himself only having half his usual diet. The result has been that there is no country in the world which sells her milk costlier than it is in India while ghee is sold cheapest in this country. This again shows that there is good deal of adulteration where vegetable oil is mixed with ghee. It was pointed out by the Agricultural Commission that some steps should be taken to prevent such adulteration. Nothing has however been done.

Mr. McDougall: If I also started into elaborate treatises into these things I am sure we would agree on all these points.

Ch. Mukhtar Singh: About the consolidation of holdings I want to understand your views definitely on the point before we proceed. Is it your view that a limit should be placed on every holding?

Mr. McDougall: No, it is impracticable and impossible to place any such limit.

Ch. Mukhtar Singh: The proportion of the size of the holding would remain the same.

Mr. McDougall: Yes.

Ch. Mukhtar Singh: My point is that consolidation of holdings does not carry us very far.

Mr. McDougall: The tendency in England, the whole of the Central Europe and France has been to break up larger farms into smaller ones.

Ch. Mukhtar Singh: But in spite of this tendency the percentage of the population living on agriculture is decreasing in those countries gradually but we find the reverse is the case in our country. That is one of the most alarming features of our civilization. I feel that there is a very big percentage of our holdings which cannot be improved.

Mr. McDougall: I agree that there must be a very small percentage like that.

Ch. Mukhtar Singh: I did not say this. Our misfortune has been that in 1880 the percentage of our population living on agriculture was 50 and after gradually rising up today the percentage is 83, while in other countries the percentage has been gradually going down.

Mr. McDougall: I may most frankly tell you that we should like to have a bigger percentage taking to agriculture.

Ch. Mukntar Singh: Under climate I am glad to find that you have pointed out the climate of India is not so hopeless as people consider it to be. To my mind agriculture is nothing else but an art to contend against climatic conditions. Our only difficulties are financial as there is any amount of water available from our perennial rivers and sub-soil.

Mr. McDougall: Only partly perennial.

Ch. Mukhtar Singh: You have suggested that the method of joint family system among the Hindu community in this, country is very bad. If you could prescribe some other occupation for the other sons of the family then it is possible that only one man need attend to agriculture, but until this is possible what could be done?

Mr. McDougall: By introducing what would appear to be a hardship you will be only improving your own position.

Ch. Mukhtar Singh: Supposing the other sons are awarded something as compensation then it would be a source of indebtedness on the family. This is done in Burma where one man gets possession of the holding while others are paid.

Mr. McDougall: It would be better to do that.

Ch. Mukhtar Singh: In your chapter on the creation of a Central Co-operative Council you have referred to inter-provincial rivalry. Will you kindly refer in little more details to the idea contained therein?

Mr. McDougall: It is only natural if one Province is making greater strides than another province where progress is very slow owing to certain conditions. It is therefore only natural for the latter to attempt even against the principles of strict co-operation to increase their members.

Ch. Mukhtar Singh: But do you not think that the failure of the co-operative movement in the United Provinces is mostly due to the fact that it is too much officialised

Mr. McDougall: It is no more officialised than the Punjab.

Ch. Mukhtar Singh: But do you mean to imply that an official knows much more about the people than the non-officials?

Mr. McDougall: Not at all.

Ch. Mukhtar Singh: Therefore you will agree with me that non-officials should be given a chance for developing the co-operative movement and there should not be too much of official interference.

Mr. McDougall: I entirely agree.

Ch. Mukhtar Singh: You say "In the Punjab and elsewhere the alienation of Lands Act makes it impossible to recognise land mortgages as a sound gilt edge investment. Where it is in operation it is not possible to secure the right to a free sale of land which through the default of the mortgage may have to be taken over by the lender". Would you tell me what your idea is with regard to the default and what it is due to?

Mr. McDougall: It must very largely be due to economic conditions.

Ch. Mukhtar Singh: If it is due to economic conditions, then you will admit that the formation of land mortgage banks would not be a solution to the problem, but things will become better only with the return of the normal conditions?

Mr. McDougall: Of course, I agree but the creation of mortgage banks will alleviate the existing conditions. That is my view.

Ch. Mukhtar Singh: You have next referred to the permissibility of non-agriculturists moneylenders purchasing land. I do not think this is a workable proposition. You know moneylending is a very paying profession while agriculture is not.

Mr. McDougall: In most countries there is always a desire for people to get back to the land. Take the case of the coal miners in England.

When an economic enquiry was held about 2 years ago with regard to coal-mine workers, it was found that many of the men expressed themselves in favour of returning to the land.

Ch. Mukhtar Singh: You cannot compare the two for the sake of argument. When we come to that stage certainly our people also will like to go back to land.

Mr. McDougall: It is not inconceivable.

Mr. Ramdas Pantulu: If some of the intelligent people would go to the land then Ch. Mukhtar Singh's difficulty will go.

Mr. Devadhar: You are aware that there are also cases of people from the villages getting to industrial centres for getting higher wages, even in England.

Mr. McDougall: I quite agree that there are cases like that as well.

Ch. Mukhtar Singh: You say "If the Land Alienation Act is amended in such a way as to recognise Co-operative Banks as zemindars, we feel confident that together with the addition of other safeguards which we recommend, sound Mortgage Banks can be established. We regard this as essential. If it is found to be impossible then it is our opinion that no new Mortgage Banks should be opened until further experience has been gained by those already in existence". Would you modify that statement?

Mr. McDougall: We are setting up a bank which depends for its success on being a sound institution.

Ch. Mukhtar Singh: On page 16 you have given as your view that in your idea every village primary society should be a saving society taking deposits also.

Mr. McDougall: Yes.

Ch. Mukhtar Singh: But what I could not understand was whether the agricultural society or the central bank would be able to find a use for such short time money. It may not be a paying concern with those people. Suppose I am a member of a primary society and I deposit a thousand rupees. After say a month I withdraw it. The society cannot find use for that money and they will have to pay something on it as interest.

Dr. Friederich: That must be done. That is a matter for the Central Bank. The Central Bank must be able to repay such money at any time you want it.

Ch. Mukhtar Singh: The Central Bank cannot invest it for such a short period. Though I agree with the suggestion I feel that at the time of the harvest the cultivator sells his produce and has to keep his money in his own house. It is much better that he should invest it in that society. Even without interest I would welcome that money may be kept in some bank because this man would not have the risk of losing his money and will learn the habit of thrift.

Dr. Friederich: A co-operative society has a certain amount of money. Of course there are people who want money and money will have to be lent. On the other hand the co-operative society has deposits, they almost always keep a cash balance with the Central Bank and it must have a cash credit with the Central Bank so that in case of a withdrawal the society is able to pay that money at once.

Ch. Mukhtar Singh: My difficulty is this—will it be a paying proposition for the Central Bank to pay interest for that money?

Dr. Friederich: Why not? The Central Bank has always cash balances and has always money invested. It is not only the sole money supplied, but the Central Bank has a lot of societies which are affiliated so we have always a balance. It is a matter of management. It is not necessary to trouble about it.

Mr. Khaitan: What I believe you mean is that the primary credit societies get money which may be required by the cultivator in small amounts within say the next 6 months, but through the 6 months the society deposits the money with the Central Bank and the Central Bank has an account with the Provincial Bank. The Provincial Bank will be able to utilise the money; so whenever the primary credit society wants to pay out the money it will be able to draw on the Central Bank. In the case of co-operative savings banks also the same process will operate as in the case of, say, Commercial Banks.

Dr. Friederich: Even in these local societies you have this fluctuation. Money comes in and money goes out and it is not necessary that you take say this two hundred rupees and invest it with your Central Bank. You can lend it out because to-morrow perhaps you will get five hundred rupees.

Mr. Ramdas Pantulu: It is not a business proposition here for the reason that in the primary societies we have no arrangement for fluid reserve. Our organisation is not so developed as the German system.

Chairman: That is another aspect of the case which we have already discussed.

Ch. Mukhtar Singh: On page 16 you suggest that even now in Scotland the farmer gets money from the Commercial Bank. Is that so?

Mr. McDougall: Yes.

Ch. Mukhtar Singh: On page 17 you have said about the improvement in drainage and waterlogging, etc. Am I correct in assuming that the Government provided a very large amount for these ventures?

Mr. McDougall: No, excepting in very recent years, and even then their advances to farmers or their expenditure except in one or two isolated examples, amount to comparatively little. Within the last year or two there have been Government schemes for helping farmers for drainage, etc., not so much to help the farmers as to help unemployment.

Ch. Mukhtar Singh: It may be that both things came in, on the one hand improvement of the land and on the other they would be helping

unemployment. But at any rate these schemes would not have been taken up without the help of Government?

Chairman: What he is referring to here is not Government assistance but it was done by the farmers concerned with the help of loans from banks.

Mr. McDougall: Absolutely. There was never a penny of Government money spent in those days.

Ch. Mukhtar Singh: I feel that it is a very bad certificate for the Indian ryot when you say in your paper "There is a difference between the Indian ryot and the Scottish farmer. The latter dislikes debts .....". I do not think you are correct there. At least the Royal Agricultural Commission has found and we have found also that the ryot considers that not only he must pay back the debt, but his son and his grandson must pay it.

Mr. McDougall: I entirely agree with you. I am not referring to that at all. What I meant here is the fact that the Indian ryot, owing to these economic conditions which you have so graphically described, has in regard to debt become more of a fatalist. When the Scottish farmer accepts a loan from the bank the Bank Manager presses him and if the repayments are not according to the scheduled scheme of repayments he sends for Mr. So and So on a certain date. The poor man goes into the private office of the Bank Manager in great trepidation and the Bank Manager gives him a serious talking. Therefore owing to all these combined circumstances the Scottish farmer pays up very promptly. The Bank Manager in Scotland is in very close touch with his client.

Ch. Mukhtar Singh: On the same page you have recommended that book-keeping must be a farming practice. I certainly agree that for farmers who have been keeping their accounts and making calculations these things would have been different.

Mr. McDougall: I would almost be prepared to say that in the majority of cases banks now-a-days would hardly advance to farmers unless they can produce books of some kind.

Ch. Mukhtar Singh: In your country it can be very easy, but how can we do it here when a man does not even know how to write?

Chairman: He is simply describing the Scottish system.

Mr. McDougall: That is right. I remember one case that I know a little about. A Bank Manager took over an agency in the County of Dumfries. He was a very progressive fellow and determined to build up a good agency. He was a good business man and he enormously extended the banks' operations in that place by giving out loans. But whenever he started to give out loans the first thing that the farmer had to promise was that he would keep books and that the Manager should see them regularly. He told them that if they could not keep books themselves he would keep them. That man got on very well in the world He established a good credit system amongst the farmers, granted them very easy credits, stimulated production and progress. Not only did the bank prosper but its farmers also.

Ch. Mukhtar Singh: But he started in a place where the people were literate.

Dr. Freiderich: I admit that our small farmers do not keep books.

Mr. McDougall: There are farmers in England who do not keep books either.

Ch. Mukhtar Singh: On page 19 I think the statement is not quite accurate. When a cultivator can only be paid in cash I think it does not happen here and he does not dread it. He does not go to the market with that purpose. In the U. P. all the transactions take place between two people under a cloth so nobody knows what it is about.

Mr. Lamond: With cotton or grain?

Ch. Mukhtar Singh: In the U. P. we produce cotton and grain.

Mr. Lamond: And it is all done under the cloth?

Ch. Mukhtar Singh: Yes, everything. According to the co-operative society if a man makes the condition with them that he must be present at the time of the sale they allow it.

Ch. Mukhtar Singh: On page 21 about Rural Reconstruction societies. I feel that if the co-operative societies take up this work it will be too much for them in the first place, and secondly it is not their legitimate work in the present circumstances. Rural reconstruction work about health, hygiene and so on to my mind is impossible unless there are two things—one is literacy of the people and the other if the man is sufficiently wealthy. If you produce these two conditions then rural reconstruction is possible. And if that has to be done by the co-operative society it will be diverting their efforts to another channel which is not so very important from my point of view for the cultivator.

Mr. McDougall: I cannot agree with you. I know it is throwing a great responsibility and a great amount of work on the co-operative societies but I think that in that sort of educative work the Government will be justified in expending money to the utmost of their power.

Ch. Mukhtar Singh: That will not be co-operative work, that will be Government work. Let the Government do it, I have no objection.

Mr. McDougall: But it should be done through co-operation. The Government will not be able to do it as effectively by any other means as by co-operation.

Ch. Mukhtar Singh: In India there is already a dearth of workers. If you divert these people to this work the natural result will be that the other work will suffer.

Mr. McDougall: I have a feeling that there is a tremendous body of enthusiasts in India.

Ch. Mukhtar Singh: That may be your feeling but unfortunately it is not mine. I think there are very few enthusiastic workers who will do the real work. Then again as I have suggested these cannot be started among the people who are illiterate in the first place, and in the second place who are fatalists on account of their income being very small.

Mr. McDougall: This is really work for a man like Mr. Gandhi. I would like to hear what he has to say on a matter of this kind.

Chairman: I think I am correct in stating that work of this kind has actually been undertaken in Bombay and Madras.

Mr. Ramdas Pantulu: Yes, in Madras we have some societies for the education of the children of members and it has worked better than the Compulsory Education Act. But with regard to the other items of rural reconstruction our scheme is this—we have an area of say 7 miles in which we establish a rural centre. Either the Union, or District Board and Y. M. C. A. does it. These centres utilise the Panchayats which have the power of taxing themselves and the co-operative societies for the purpose of doing this reconstruction work. Plans are prepared. There are two times for bathing and washing. Slushy roads are replaced by metalled roads. There is lighting in the villages. There is sweeping. A woman teacher goes about educating the ladies of the house. Various items of rural reconstruction are being carried on by paid workers.

Mr. Khaitan: I understand that in Bengal also the Malarial Co-operative Society is doing very good work, in that direction. Their first concern is, of course, the reduction of malaria but they are also doing rural reconstruction work.

Chairman: Of course conditions in different provinces vary. In the United Provinces all know that co-operation has not yet reached the level it has reached in some of the other provinces, I do not think we can object to Mr. McDougall's proposals on principle. I am prepared to agree with you that it may not be possible to work out in all the provinces but the fact that it has actually been done in 3 or 4 provinces shows that it is not impossible. I now hear that this proposal has been taken from the U. P. Committee's Report.

Ch. Mukhtar Singh: My point is this that if this rural reconstruction work is undertaken by the co-operative societies the result would be that all those people who are working in the societies will be diverted to this work and there will be very few people left to work the other things more important than this.

Chairman: But that is not the experience of Bombay and Madras and the Punjab. The apprehension may perhaps be correct so far as your province is concerned, but need not be correct all over India.

Ch. Mukhtar Singh: I do not see why it should be done at all. Take the case of Gurgaon. Mr. Brayne started it there but the work did not fructify as the economic position did not improve.

Chairman: The failure of Mr. Brayne's arrangements was largely because it was a Governmental measure, not carried out by means of co-operation but there are other places in the Punjab mentioned in the Royal Agricultural Commission's Report where it is being done on co-operative principle very successfully. The Punjab is the province where co-operation has made the largest amount of progress in any part of India.

Ch. Mukhtar Singh: But the energies of the co-operative societies' workers should not be diverted.

Chairman: It depends on the body of workers purely. In Bombay for instance the energies of the Servants of India Society are too well-known and they are able to manage it without in any way impeding the development of work of co-operation. In the Punjab it is being done.

In fact if we are to believe these reports the work of rural uplift and the better living societies there is probably as great as the work of the co-operative societies. Therefore you cannot take exception to the principle. I fully see your point that the workers must be there and it may result in some provinces, owing to the paucity of workers, in diverting workers from the field of co-operative credit to some other co-operative field. But Mr. McDougall is not proposing any diversion. He says that this is an important sphere of co-operation and the scheme should be pursued wherever it is possible to do so.

Chairman: That I take it, is all you recommend.

Mr. McDougall: I want to emphasize it.

Mr. Devadhar: You have given us the example of a village. Your idea in giving that description is probably, if I am right, to piont out the possibilities of improvements that a co-operative society can introduce in a village.

Mr. McDougall: That is so.

Mr. Devadhar: I would also ask you whether the work you have described would have been possible of achievement if there were no co-operative society.

Mr. McDougall: I do not think so.

Mr. Devadhar: In order that the different kinds of work for which there is at present such a large need in rural parts may be realised, what is needed is some kind of awakening and active self-interest created by systematic work.

Mr. McDougall: That is so.

Mr. Devadhar: The background of economic improvement is the co-operative society.

Mr. McDougall: So far as I can visualise it, it would be utterly impossible excepting through co-operation.

Mr. Devadhar: I will read a portion from this book (Prof. Kaji's Co-operation in Bombay):—

> In short let us recognise the limits as well as the possibilities of co-operation. Let us never forget that the co-operative movement, mainly economic as it is, rests on certain moral qualities for its foundation and ultimately must lead to the moral uplift of the whole community. The strength of the movement must be assessed not from the number of societies, but from the spirit which animates their members. Thrift and service constitute the soul of the movement. Let us not be satisfied with a soulless body, however, imposing it may look. Once the co-operative conscience of the masses is thoroughly roused, it matters little whether an experiment here or an experiment there fails; the movement will be sure of its foundation. But failures due to a faulty foundation must serve as searchlights to be turned inwards. Too much official encouragement in the matter of organising new societies is as fatal to the co-operative movement as too much official control. It is essentially a people's movement and must arise from within and not be imposed from without.

More propaganda for thrift self-help, mutual help, and a broader and more moral outlook and less actual organisation of societies should be the motto at least for the present.

Mr. McDougall: I accept all that.

Mr. Devadhar: There are many of us who believe that though the co-operative movement has an economic end primarily, it has a much larger mission to fulfil, and that is it should work for the uplift—moral, material, social,—of those who are touched by the movement, and it is because there is this view that some of us who are engaged in co-operative work have begun to feel that it is not enough to make a man rich, but that it is necessary, if his environment is dirty, if he is ignorant, if his child become ill, if he has not a wider outlook, steps should be taken to remedy these as no amount of wealth will be of any use.

Mr. McDougall: I entirely agree.

Mr. Devadhar: Therefore, the problem of what they call rural uplift is not in any way divorced from the original object of the co-operative movement which was an economic one. It is being increasingly recognised that the economic aim will depend for its fulfilment upon several other factors: education which does not mean mere literacy; wider outlook which means much larger culture; better health; better organisation; better methods of co-operation in other senses. In order to give that kind of education to people rural uplift centres are being created. I have realised that even co-operative efforts will not be successful unless it leads on to other efforts, and I believe that is the tendency in other countries also.

Mr. McDougall: I quite agree.

Mr. Devadhar: I wish to get my views confirmed after the discussion that took place between you and Mr. Ramdas Pantulu. Am I to understand that you have given up the idea of a central council?

Mr. McDougall: The executive control is given up.

Mr. Devadhar: I was just going to mention to you that at two conferences we had proposals more or less of the same nature and that they were vetoed.

Mr. Devadhar: You have in your paper given us the kind of educational programme we must have. In Bombay we have a Co-operative Institute. It has formulated its own courses of instruction of nearly ten different types for different grades of co-operators or co-operative workers in the Presidency. We have three schools working in three divisions of our Presidency with regular courses. After my visit to Denmark, Ireland and Scotland, especially from the point of co-operation, I saw that it would be much better for us to take half a dozen co-operative workers from rural parts, intelligent men, and showed them precisely what is being done in other countries. I was at a place called ..... a place of nearly 4,000 people. They have a world-renowned dairy to see which people from America and Australia came. At Copenhagen I visited the Milk Supply Co. supplying milk to nearly three lakhs of people. I felt that poverty had been removed comparatively speaking entirely through co-operation of non-credit kind, and that is what we want in our country to-day. On the subject of education of co-operators I would recommend the establishment of some scholarships—not necessarily for higher officials like Registrar, Dy. Registrar—but for small men. I had a talk with

Mr. Montagu on my return from Denmark. He asked me my impressions, and one of the things that I told him was this: I feel that it would be far better to get active workers in the co-operative field, especially non-credit co-operation, to see what is really being done by other countries rather than deliver lectures to them. I delivered an address on—The Message of my Western Experience—I do not know whether half a dozen people took advantage of that. Would you be in favour of such a proposition.

Mr. McDougall: Yes.

Mr. Devadhar: I was told by a Professor of a University who is now delivering Extension Lectures that he found, when he lectured on economic or industrial subjects, that far better intelligence was shown by those who are actually working in the movement than by mere students. If that is your experience then this proposition is correct.

Dr. Friederich: A lot of German co-operators go to Holland and Denmark to study co-operation in these countries because marketing is much better developed in Holland and Denmark than in my country. People from other countries come to my country in order to study our credit co-operative societies.

Mr. McDougall: I should like to suggest that arrangements should be much better developed in Holland and Denmark than in my country.

Mr. Devadhar: That will be one of the conditions. I should like to get your idea with regard to one of the aspects of the formation of land mortgage banks. I take it that if real relief is to be given by the top institution it is only possible on two conditions: a long period over which repayments will be spread, and a small rate of interest. I will not deal with the latter because you have given our views. Now I should like to mention that in our Presidency we have formed a number of co-operative housing societies with financial assistance from the State in the proportion of 1:2 or 1:3 I belong to a society of which I am the President. We had Rs. 25,000, we got Rs. 75,000 from Government, and we have put up four buildings in Bombay of the value of Rs. 1 lakh. The loan is spread over a period of 40 years. Now in the case of houses the returns are steady, whereas in the case of land, if the money has to be repaid out of the income, there is a certain amount of uncertainty about it. Would you be prepared to make the period something like sixty years for loans on land?

Mr. McDougall: I entirely sympathise with it. As the movement becomes sound, as you gain experience, extend your period, till then play for safety. I can see no chance of securing the necessary amount of safety if you are going to start with anything like sixty years under the conditions prevailing now. It would be very dangerous.

Mr. Devadhar: Money will be spent on improvement.

Mr. McDougall: Land deteriorates very quickly. It has got to be nursed, taken care of.

Mr. Devadhar: Take for granted that the improvement or the rate of improvement will be maintained: length of period is one of the factors, making for repayment easy.

Mr. McDougall: Quite right.

Mr. Devadhar: I should like to know whether you have any proposal to make with regard to the liquidation of old debts. In your paper on page 17 you have made some remarks with regard to the attitude of the Indian ryot towards his indebtedness. Probably you mean to say that it is as natural for him as it is for a fish to live in water. But fortunately in India a grandson will recognise his responsibility to repay the debts even of his grandfather: if the debts were proved people are unwilling to disown moral obligation. We would not advocate therefore anything like rural or agrarian Insolvency Act. Have you any suggestion to make with regard to the manner in which liquidation should be attempted?

Mr. McDougall: No.

Mr. Devadhar: Have you come across any country where people are face to face with this kind of indebtedness—I do not mean the kind of indebtedness in Germany, I can explain it away,—this indebtedness where money is borrowed for unproductive purposes.

Mr. McDougall: No. We attempted to meet it to some extent through the Mortgage Corporation in England. I have no personal experience of that at all, and I am sorry that my ability is not sufficient to suggest any scheme. I was told by Sir Arthur Salter that there was a Committee—I think a League of Nations Committee—investigating the financial insolvency of some of the backward Central European States. He suggested that the findings of that Committee might be available. I do not know whether they got reported. Sir Arthur promised to let me have the information at the earliest possible date, but I have not got it.

Dr. Friederich: It is necessary to supply long-term credit on reasonable conditions because the Committee are of the opinion that indebtedness is caused by expensive short-term credits, and that it cannot be removed unless long-term credit is supplied at cheap rates and peasants are able to repay their debts within a long period. In my country the Landshaften banks charged usually before 1924 ½ per cent. as rate for repayment: later on up to 1 per cent.; and the biggest rate or what we call amortisation purposes is 3 per cent. So people can repay their debts in the course of a very long period. But indebtedness cannot be removed by such measures only.

Mr. Devadhar: This is one of the ways.

Dr. Friederich: General conditions of agriculture should be improved, and long-term credit should be supplied.

Mr. Ramdas Pantulu: There is a matter which we may have to consider in the Committee later, on which Mr. Devadhar expressed an opinion. I am not in agreement with him. Both the Royal Commission and the Civil Justice Committee have pointed out how rural debtors have not been able to take advantage of the Provincial Insolvency Act as it stands, and have definitely recommended that the question has got to be looked into. I propose to press this point in the Committee. Mr. Devadhar's statement that a Rural Insolvency Act is unnecessary may not be taken as my view. Do you agree with the Royal Commission?

Mr. McDougall: I agree with them.

Mr. Devadhar: You propose rural insolvency as one of the reliefs to be given.

Mr. McDougall: On the lines of the Royal Commission.

Mr. Devadhar: In proposing the Provincial Audit Union your complaint was that the audit as at present conducted is inefficient and inadequate.

Dr. Friederich: According to statements made in the provincial reports.

Mr. Devadhar: At the same time I think you have seen that in some of the Presidencies at least there is a clear cut distribution of function: financing is managed by provincial banks; auditing is carried out by Registrars and local societies approved by Registrars; and education, propaganda and organisation come under the third institution called the third arm or the third wheel, *viz.*, the provincial co-operative institute. If it be your idea that adequate audit is not carried out at present and should be improved, instead of asking another body to combine these functions, would it not be advisable to ask the Department to increase the staff or add it to the work of the Provincial Institute which is responsible for education, supervision, and for some kind of organisation.

Dr. Friederich: I think in case my proposal is accepted you have a smaller staff, but more efficient staff. I am of opinion that in some provinces you have rather a big staff for audit and supervision. You have one class of people to look after another class of people: a relatively small number of auditors and a relatively big number of people to look after the auditors. If my proposals were adopted Government will save some money. On the other hand the contributions of the societies will not get too heavy. For instance, I read in the Bengal report that Government would have spent less money than the audit fees levied by them.

Mr. Lamond: Madras Report, paragraph 16, page 10, middle portion.

MADRAS REPORT.

16. In spite of the exhortations of the leaders of the movement and the efforts of the special staff there has been a deterioration in the matter of repayments. In respect of amounts due by agricultural and non-agricultural societies to central banks the percentage of balance to demand rose by 4 under principal, by 15 under arrear interest and by 2 under current interest. As regards repayments by members to agricultural societies the overdues rose by 6 per cent. under principal and by 4 under arrear and current interest. In non-agricultural societies the arreas under principal and current interest rose by 3 and 7 per cent. respectively, while the arrears under interest due in previous years was reduced by 18 per cent. The main reasons given for the unsatisfactory recoveries are the low prices ruling in the market for the chief agricultural products such as paddy, cotton, and groundnut and the prevailing economic depression in the country. The non-agricultural societies have fared better apparently because there is a large proportion of members in those societies with fixed salaries such as Government servants, employees of local bodies and firms. The members of agricultural societies have no such fixed income and the low price obtained by them for their produce was probably insufficient to meet all their liabilities. It must be said, however, that this is not the only reason for the heavy overdues. The members have, generally, not yet realized the importance of punctuality and of keeping their credit unimpaired. They think that the payment of the society's dues can be put off as long as possible and do not realize that they are ruining their credit by such default. You have read this report. I should like to know your views as to whether you think the steps they are taking are adequate and whether you can suggest anything to improve liquidation of debts,

but in doing that I should like you to take into consideration the remarks made by the Registrar. The main reasons given for the unsatisfactory recoveries are low prices ruling in the markets and the prevailing economic depression in the country. As regards bad finance it might have happened under very good management. Those people in the ordinary course would have been repaying the loans if, as they are depending on the movement for their accommodation, they were not let down. In one place they refer to societies which went into liquidation over 5 years and then societies that have not been able to recover 50 per cent. of their outstandings. They have given that account under the head 'Depression'.

Mr. McDougall: What report is that?

Mr. Lamond: Madras. They have collected particulars of outstanding arrears of societies the registration of which was cancelled over 5 years and find that there are 86 such societies with Rs. 389 lakhs pending collection.

Mr. Lamond: During 5 years 2·62 lakhs have been recovered. They have collected less than 50 per cent. in the five years; there is still 3·69 lakhs outstanding.

Mr. McDougall: That is not a particularly healthy state of affairs. That is one of the reasons why I would urge my good co-operative friends to consider the advisability of making their technical work as perfect as possible. I will be immediately challenged by the statement that there are experts in Bombay and that Mr. Ramdas Pantulu himself is an expert. I am not an expert banker, the last thing in the world I would do is to make myself responsible for banking. I would tell the expert "That is your job and if you do not make a success of it, you can look out for trouble". But whether they are experts or not, I would appeal to my co-operative friends to consider this: what enormous amount of time would be available to them to devote for furthering co-operation in all its other branches if they were relieved of this constant worry. I shall tell you a story about myself; it has some bearing on the point. I was placed in charge of agricultural produce in Scotland during the War. I was responsible for stocks amounting in value to millions of pounds. It was very soon realised that if we were to carry on the work successfully, we would have to become a really great marketing organization in which all the marketing had to be done through us and that we would require a large amount of Government funds to carry it on. A special central committee would have to be appointed to undertake this work and the idea at first was that both England and Scotland should be combined. I saw the permanent Secretary and settled with him that we in Scotland would have the control of our own fund. The question of the constitution of the committee had to be taken up. The organisation was to handle millions of pounds. In England they had appointed an expert auditor, they had also a banker as Chairman of the Commission. When I was asked as to whether I required a banker as Chairman, I said 'no'. They were staggered and said 'we appreciate your practical experience enormously, but you do not suggest you are a banker'. I said I knew all about that and because of that I would take good care to have a banker on my Committee on whom I could depend. I was the practical man in charge of the business. There was not the slighest doubt that the work was extremely satisfactorily done. Now, gentlemen, I would appeal to you to consider the energy that you could devote to other work if you were free of technical responsibility. I

know of the difference it would make if you had a real practical man in charge and I would beg of you to consider that. It is a matter of detail and not of principle at all. But do consider the relief it would be to yourself and to the leaders of the movement. It is not your business to bother yourself with liquidating concerns that have very likely to be liquidated because of mere technical defect. It is somebody else's business. The scope of your work is so enormous, so wide.

Mr. Ramdas Pantulu: Liquidation is purely official.

Mr. McDougall: That is quite true, but if there is any flaw on the banking side, that brings on liquidation if the thing is not perfect.

Mr. Ramdas Pantulu: May I know exactly where technicalities come in?

Mr. Lamond: Here is what the Registrar of Co-operative Societies in Madras says in his last report:—

> "During my inspections of Central Banks, I have been impressed by the fact that totally inadequate attention has been paid in the past to the question of bad debts, and that central banks generally assumed that all their investments were good until the contrary was proved".

Mr. McDougall: In the report of your own sub-committee on Rural Finance I find the following:—

"The various Provincial Committees specify some defects as being more pronounced in their provinces:

> *Bombay*—Careful selection of members not universal.
>
> *Madras*—The knowledge of banking in the staff and the directors generally inadequate".

Mr. Lamond: The reason why I brought this point is this: as a banker I see that next year the co-operative movement is going to have a difficult time, because in the ordinary course the cultivators who would be paying this year are not in a position to repay their debts and they have got an extension of time for repayment. If the banks take up the attitude next year that they would not advance any more, what is going to happen to them?

Chairman: It is not a question of banking expert.

Mr. Lamond: It is one of the most difficult questions in banking.

Mr. Ramdas Pantulu: Mr. Lamond is perfectly right in reading the passage from the report of the Registrar of Co-operative Societies. The difficulty came, not because there was no banking advice, but because the central banks have not got themselves into touch with societies and obtained information.

Mr. McDougall: Some of the other provinces who specify some defects as being more pronounced in their provinces are:—

> *Burma*—Failure to observe fundamental banking principles.
>
> *Central Areas*—Feeling of irresponsibility among its officials and managing bodies of central co-operative banks for anything that goes wrong.
>
> Inadequacy of co-operative staff.

The Royal Commission comes to the conclusion that the financial solvency of the movement is beyond dispute and it is the working of the societies

that is defective. I feel that unless you have technical experts in charge you are carrying a burden which is not right that you should carry. Your work is so enormously important in other ways. You should relieve yourselves of all responsibility. You should have an administrator who is only thinking out the lines of advance.

Mr. Devadhar: Mr. Ramdas Pantulu is connected with the Co-operative Bank in Madras as Chairman or Director. I am also connected with the Provincial Co-operative Bank as one of its Directors. Would you like us to resign our position?

Mr. McDougall: No, I should like you to continue as directors by all means, to attend the directors' meetings when necessary, to advise your provincial banks and generally to keep your finger on the pulse. But I want you to get rid of the responsibility that is a crushing burden on you. I want you to devote your whole time and energy into making that tremendous stride that you have got to make and I would beg of you to consider the great relief it would be to you if you had a technical man.

Chairman: As it is, Mr. McDougall has made an appeal and we have before us the experience of a province where there is a banking expert. So I tried to find out the position in that province. This is what I find in paragraph 43 of the Report on the working of Co-operative Societies in the Punjab for the year ending 31st July 1929 regarding liquidation:

> "The figures are large and together with the number of societies growing . . . ."

If that is the position in a province with a banking expert, to my mind the solution is inconclusive. We will certainly give the suggestion our most serious consideration.

Mr. McDougall: How long has the banking expert been there?

Chairman: I think he has been there from 1926. I shall leave it at that. Mr. Lamond's other point is more important. It was that with the depression and fall in prices the borrowing ryot would find it more difficult to repay his debt, say in the next year or so. Has Mr. McDougall any solution to offer to meet this part of the situation?

Mr. McDougall: No.

Chairman: I think you said that it would be for Government to come to their assistance.

Mr. McDougall: That is so.

Mr. Ramdas Pantulu: We have thought out a solution without a banking expert, it may be right or wrong. We have got the Provincial Bank in Madras to meet the situation by applying to the Imperial Bank for a loan of ten lakhs on our co-operative paper, if is for them to grant or not. Government have given ten lakhs to be re-paid in six months, but neither the Imperial Bank loan nor the Government loan is going to be repaid by the ryots, because it is not likely to be feasible. What we are trying to get is some long term deposit and give extensions to members of the societies to tide over the difficulties. We propose to get it next year and pay Government. So far as I can see, it is perfectly sound banking proposition.

Mr. Jadu Nath Roy: About your remarks on Land ownership and tenure in Bengal, I may tell you that tenure under zemindars and Government is almost the same. They pay the same rate of interest and

enjoy the same occupancy right, they can sell the occupancy right in the case of *khanis* from Rs. 5 to Rs. 1,000 or Rs. 1,200 per *bigha* and whatever they make they can easily enjoy. Have you investigated the conditions in Bengal about land tenure?

Mr. McDougall: No, I saw none of these conditions.

Mr. Jadu Nath Roy: Your statement that 50 per cent. is realised over rent applies then to the Punjab?

Ch. Mukhtar Singh: We have read in the Bengal Committee report that there are 24 intermediaries between the cultivator and the zamindar.

Mr. Jadu Nath Roy: But the rent paid is the same.

Ch. Mukhtar Singh: They can sell their rights.

Chairman: But not the occupancy tenant's rights. The Bengal system is very complicated. You have first got the zemindars, then the patnidars, then the dar-patnidars and so on until you come to the tenant. But the tenant has always got the occupancy right and pays the same rent. I would advise Mr. Mukhtar Singh to read one of the books on Land Tenure in Bengal, it is a most complicated arrangement. As a result of the various Tenancy Acts passed, I think I am correct in saying that all of them have now got occupancy rights.

Mr. Jadu Nath Roy: In the case of Madras, I understand they pay 50 per cent. of the produce for Government land.

16th March 1931.

MEMORANDUM ON MARKETING.

By Mr. A. P. McDougall.

There is one great problem before India—to increase the prosperity of the ryot. If this can be done then not only will the economic but also the social position of the country be revolutionised to the advantage of all. There are only two ways—Co-operation (in its broadest aspect) and Marketing.

In the economics of production a factor known as the law of diminishing returns comes into operation. In many highly developed countries a point has been reached when it has become impossible to increase production except at the sacrifice of profits. Before that stage is arrived at, increased production actually reduces costs and thereby, increases profits. This has been the line followed by most countries. In others, notably Canada, the grain belts of America and Australia, costs of production have been reduced by mass production by power machinery with the minimum amount of labour employed. To such an extent has this method developed that in certain districts of America 600 acres of wheat land can be cultivated and harvested per man employed. Progress in such a way is for many obvious reasons impossible in India. She must advance on the lines of increased production. She has hardly started to do so. There is room for vast development before the profits of her cultivators are adversely affected by the law already referred to.

The governing factor in the development of agriculture and trade is demand. India has spent 115 crores of rupees in bringing into cultivation 23 million acres of irrigated lands. On this land she has established two millions of small cultivators. No effort has been made to ensure them a market for their output. Their produce has aggravated a disease which had already been in existence—the congestion of the internal market.

Ryots who have settled on the virgin irrigated soils of the Punjab have improved their position. It is to some extent at the expense of their fellow ryots who have remained on their old crop weary holdings, on land exhausted by countless generations of cultivators. Even the tillers of irrigated lands have not reaped the full advantage of their efforts because of the congestion to which reference has been made. In a country like India it is the export market which makes the price, not the home. If because of inferior quality, uncertainty of supplies or lack of uniformity, Indian export produce makes less than that of other countries, then the price on the home market is correspondingly less. If steps are not taken to organise export in such a way as to meet the modern requirements of world trade, then the greater the quantity of produce grown in the country, the greater will be the internal congestion. This will result in increasing the poverty of the ryot, and then the less will not only he and his family eat of his own produce, but also the millions of village workers who supply his requirements. The trouble does not end here, industry which is dependent on the prosperity of the rural population—80 per cent. of the

whole—will find its market seriously restricted. India is a country of thirty-six million homesteads, small in area and therefore, under the existing methods of cultivation, with a small output. No other country, with the exception of China is less organised. More than any other country does she require organised marketing for the following reasons:— The diversity of quality and class of produce. Almost every crop in the world is grown by her cultivators in relatively speaking, minute quantities. The amount of surplus available from each cultivator is trifling—collectively it is enormous. The difficulties of successful marketing are added to by the ryot growing mixed crops such as wheat and barley. In a country of such vast extent, long and heavy expenditure on rail transport charges has to be borne by a considerable proportion of the crop. Bulk transport is the only possible way to reduce this expenditure.

Facilities for collection and export have, it is stated by competent authorities, actually declined in recent years. The great export firms have, for instance, withdrawn their agencies from many important markets, particularly in the Punjab. This is remarkable in a province where such intense development has taken place and where we would have been justified in expecting greater activities on the part of the large export merchants. Mr. Owen Roberts, a well known expert on the marketing of wheat in the Punjab, who has spent considerable amount of time in investigating the position, has made the statement that marketing in that province is simply chaotic. We are satisfied from the investigations which we have made that this is not an over statement. It has been stated that there is one million tons of wheat lying in the Punjab at present, while Calcutta is buying Australian wheat. It has been landed even at Karachi—a gilbertian state of affairs. A proposal has been made that the import of wheat should be prohibited. This is a lazy man's remedy, especially in a country which normally exports wheat. The only sound remedy is to fight with modern weapons—Organised Marketing.

Even the selling of tea would appear to be most unsatisfactory. The President of the Tea Buyers' Association in a speech made the other day referred to the gloomy outlook in that trade. He blamed the antedeluvian methods of selling tea.

As the organised competition of the rest of the world is increasing, Indian produce is being displaced. Standardisation and organisation are now the watchwords in every great country. There is a determined striving after efficiency. This is to be found with Canadian, Australian and Argentine wheat. Even Russian wheat is now being sold through one organisation. New Zealand and Danish butter has captured the world market because of organisation in marketing. This also applies to Danish bacon. Argentine meat rules the world market because of organisation. South African, Californian, and Canadian fruit growers are entirely dependent for their export trade on the efficient methods adopted by these respective countries in placing the fruit on the world's market. To such an extent have nations interested themselves in organised marketing that in Ireland, Denmark and Holland eggs are now refused an export licence unless they secure the Government hall-mark of quality.

During the last decade grading in western countries has become almost universal for all products. Canada was the first country to standarise grades. For many years her wheat has been sold on the exchanges of

Winnipeg, Chicago, London, Rottadam and Hamburg to the extent of millions of pounds a day on the declared grade quality which is rarely challenged. A bushel of wheat has on the exchanges a world market and can be transferred as easily from hand to hand as sterling money. Good quality Indian wheat is as good as Canadian. It is hardly necessary to ask what its position is in the world's market. This arises not only from the mixture of various qualities of wheat but also from varying amounts of sand. We are informed that 5 per cent. and even more is a common average. No country can afford to pay freight charges on exporting grit. In dealing with large quantities of agricultural produce, this in itself amounts to a severe handicap. An even greater one is the difficulty of ensuring steady and continuous supplies. Wheat, for instance, is of little interest to large flour millers unless they can be ensured of stated quantities when required. Milling is now a highly specialised and technical trade. The miller sells his flour as the Canadian producer sells his wheat—on standard quality. It is only in this way that the miller can retain his market. The baker also must know exactly what grade of flour he is buying. To enable the miller to give this guarantee, the proportions of various grades of grain used by him must be definite. Adulteration of grain and other produce which is so frequently done by the trader and the ryot in their endeavours to increase their meagre profits, merely adds to the ultimate difficulty of securing the best price. The ryot and the collecting merchant try to deceive each other. The collecting merchant and the shopkeeper do the same. The shopkeeper in his endeavour to secure a profit, adulterates the food which he sells to the consumer. In the aggregate the profits of the innumerable number of traders must be very great. Individual profits are small as they always are where there is a teeming population as in India. The fight for a bare livelihood will always bring forward sufficient competition to secure to the ryot a price that will leave the country trader with a very small margin. It is not the excess profits of the traders that the ryot has to complain of or suffers from, it is the hopeless inefficiency of the whole system.

During the course of the discussion at the meetings of the Central Banking Enquiry Committee, the decline of the Indigenous Banker has been referred to. Competition from the Imperial Bank, the big Exchange Banks and the Joint Stock Banks has been stated as the reason.

The decline of the Bill Market has also received attention. The reason given has been—1. Stamp Duties.—2. Cash Credits. The Bill Market can only operate successfully if there is a free scale of goods. When goods become sticky and difficult to clear, bills become dangerous. Careful consideration should be given to this phase of the problem. In our opinion, the decline of the Indigenous Banker and of the internal financial organisation of the country is partly due to antiquated methods of marketing. The Indian merchant operating on an internal market congested with goods which do not meet a ready export scale is a bad bank client. The banker, the merchant and the ryot all suffer. As the position of the latter (80 per cent. of the population) becomes more difficult it reacts on the trade of the country. It is only by the ryot manufacturing goods for which he finds a speedy and profitable sale that the real wealth of the country can be increased. The troubles of the Indigenous Banker and the ryot arise, to some extent, from the same cause—marketing in which there has been no change for countless years.

Internal congestion not only disorganises the money market, it results in what must collectively be an enormous loss in the actual waste of produce. The holding up of goods in small parcels, even under the best conditions of storage, results in serious loss. It takes place in the wheat stack of the ryot, in his store and in the pit or store of the small trader who collects the produce. Every hold up along the line of distribution means waste of time, waste of credit, increased transport and storage costs. Even in England where wheat is stored on farms unthreshed in large ricks, the wastage between the months of September and May has been estimated at 5 per cent.; it must be much greater under conditions such as exist in India. I suggest that, if the loss from this cause alone could be estimated, it would shock the Nation.

Until India can improve her position on the world's market, she must remain a poor country and banking can never make real progress. Banking follows trade, it does not lead trade. Banking develops as the country does. It cannot be made without trade. Trade cannot be made without goods. Goods are worthless unless they secure a market. During a boom period antiquated methods of production and sale may suffice—goods of whatever quality will find a market at some price. In times of depression it is a hopeless task for the merchant to sell inferior ungraded goods on the world's market at anything like a reasonable price.

Dr. Trip in his memorandum on the Money-Market has pointed out how a well-developed system of warehouses could assist the credit position of the country. They would not only expand credit. They would be of enormous assistance in the reorganisation of marketing. These warehouses would form the nucleus for the centralisation of produce. If they are to be made use of then there must be some authority to organise the trade. The experience which the Punjab Government has had in erecting a wheat elevator is a sufficient proof that to do so without the co-operation of the various interests will merely result in the building of stores throughout the country which will never be made use of. Not the least important of the many duties of the Marketing Board which we propose should be established would be to pull the various interests together for this purpose.

The establishment of co-operative marketing will in such a country as India, be slow. It will, however, be one of the duties of the Marketing Board, in consultation with the co-operative authorities, to assist and support the promotion of co-operative marketing. It is more necessary in a country of small holders than it is where farms are large. The smaller a consignment for sale, the more hands does it have to pass through before it meets the export trader or the large wholesale merchant and the greater is the loss to the ryot. He must be persuaded to centralise his produce. There is only one way in which this can be done—to prove to him that when he does so he is going to meet a better market for his goods. If co-operative marketing can be established another great advantage will result. It will enable the produce of the country to be used as security for the provision of cheap credits.

In one of the Provincial Committee's Reports it is suggested that a Marketing Officer should be appointed under the Registrar. This suggestion is only trifling with a part of the economic structure which is of supreme and vital importance. The only attempt which is being made at the present moment by Co-operative Societies in the

marketing line is to establish Commission Shops in the local market. These shops act as agents for their members. They sell in the local market, under exactly the same conditions as other traders. The Management is not more efficient. It is indeed perhaps inferior. It is claimed that by this means a cultivator may save half a rupee per maund in commission. This may be of some benefit, but it only touches the very fringe of this great problem. The congestion of the internal market is left exactly as it was. During our tour throughout India we saw two co-operative marketing agencies. One of these was in Madras, it is called the "Triplicane Co-operative Society". This is a small trading Society buying from farmers or in the wholesale market and selling to consumers. The Management informed us that they find great difficulty in making progress owing to the impossibility of securing adequate commission on the sales. The Managing Director of the Society stated that profits were exceedingly low, the average in the retail trade being 6 per cent. If these figures are correct, then the costs of local distribution under existing organisation are low. It is difficult for any retail co-operative society to make progress under such conditions. The other organisation which we saw in operation was a Commission Shop in the Punjab near Lyallpur. The Management in the latter case was inefficient, Book-keeping was elementary and there was difficulty in explaining the book debts. For the size of the business they were excessive. Co-operative Marketing is not worth doing if existing methods cannot be improved on. If it is to be of any real assistance to producers in India, then the whole problem must be tackled on entirely different lines. The co-operative movement throughout India has no clear line of advance. It is uncertain as to its future procedure with regard to marketing because it has no clear understanding of the goal to be aimed at; there is only one—clearing the line of surplus goods.

At Rothamstead Experimental Farm in England there is one plot of land which has been devoted to continuous wheat production for about half a century. No manures of any kind are applied. The yearly output has become static at about 12 bushels or 750 lbs. per acre. The impression is that production at this rate can go on indefinitely. The land is by no means naturally rich. If Indian production was raised even to this level the increased revenue would, in terms of wheat, be £112,131,000 per year or 168 crores of rupees. If increased production in more valuable commodities were considered, then the increased wealth would be much greater. By improving the cultivation and qualities of cotton and sugar cane, the increase per acre would be distinctly greater. The possibilities of increasing the production of sugar are almost illimitable. At the present moment spasmodic efforts are being made to establish mills in various parts of the country, but no co-ordinated and organised effort is being made. There is another form of production for which the soil and climate of India are particularly suited—fruit—there does not appear to be a single fruit which India cannot produce with great perfection. Many large tracts of the foot hills of the Himalayas are, we are informed, ideally adapted for the cultivation of the more temperate fruits. The warmer regions are equally well suited for tropical fruits including mangoes. California by organised marketing has brought vast wealth to her state. In 1877 one car load of citrus fruit was shipped from that state, now approximately 60,000 car loads are being shipped annually. Other classes of fruit have made similar progress. The value of the citrus fruit exported now amounts to 80 million dollars per year. The value

of the timber required for packing boxes is 6 million dollars—an industry in itself. This would have been utterly impossible but for organised marketing. Experts inform us that the soils and climate of many parts of the irrigated tracts of India are comparable to California for fruit production. More revenue per acre can be derived from fruit than from any other class of food stuffs. It is only by concentrated effort through bulk marketing and standardisation of the product that Canada and South Africa have also succeeded in capturing their share of the world's market. In this one line of produce alone a very large increase could be made in the agricultural wealth in India. Even in England where considerable attention has been given to fruit culture in recent years, in certain districts specially adapted for fruit, the value of the land has increased from £20 per acre to £100 per acre; the gross receipts have also increased from £8 or £10 per acre to £100 per acre. In some cases this figure has been considerably exceeded.

All these possibilities are open to India, but it is only by concentrated effort that these vast avenues of wealth will be made available. Money as is well known to the Banking Committee breeds money. There is no single reform that is more likely to revolutionise the economic situation in India than by increasing the products to be derived from the soil and thereby increasing the wealth of 300,000,000 people. It is one of the greatest economic problems in the world. There must be no shirking responsibility, however great the task.

It may be said that the organisation of fruit cultivation in India is purely agricultural. To produce fruit or any other commodity before the market is assured will merely result in the fruit rotting on the trees as, I am informed, it has done in the northern Punjab for the last 2 or 3 years. Fruit growing countries have been compelled not only to effect organised marketing but also to establish canning factories to make use of surplus crops. California is supplying the world. Why should India not have her share?

The question of organised marketing is of greater national importance than that of Rural Credits. To supply credit requirements of the ryot is important, but as we have pointed out in a previous memorandum it is not so much so as it is to cure the diseases from which the indebtedness arises. One of those is the low average production of the cultivator. Production can never be stimulated until the ryot can secure a free and sure flow for his surplus produce to the world's market. It is only by the development of the external trade of India that she will ever take her place in the world of trade and commerce, which her vast wealth in land, population and climate would justify. Her agricultural possibilities, under a proper organisation, are amongst the richest in the world. Her resources at the present moment are only being scratched.

Indian handicraft for which the country is pre-eminently framed would derive great benefit from a Marketing Board. If advantage were taken of the world demand for the innumerable articles which her workers produce, the output could be greatly increased. There should be an Agent and Show Room in every great capital in the world. It would be the duty of a Marketing Board to organise the various handicrafts in such a way as would enable the trades ultimately to bear the necessary expenditure.

A small levy on the goods sold could be arranged for. German cottage industries are organised into guilds for this purpose and through them their manufactured goods are marketed with great efficiency and with great benefit to the members. Indian workers are amongst the most skilful in the world. The possibilities of improving their position by this means alone are illimitable but it is necessary that some authority should be responsible for organising the crafts.

I shall not attempt with the exception of jute to make detailed suggestions as to what procedure should be adopted for the various commodities which India produces. This can only be done after a most careful and detailed investigation and in consultation and close co-operation with all the interests involved. There is only one way by which it can be accomplished—by the establishment of a Central Marketing Board under a reconstructed Ministry of Agriculture. We suggest that this ministry is the proper authority because it is agricultural and rural production for which organisation is most required. In order to co-ordinate the interests of the Provinces, the Board should consist of one representative from each. The chairman should be executive officer appointed by the Central Government. It is essential that he should understand modern trade and marketing requirements. Sub-Committees representing the various interests would be appointed by the marketing department and would act in an advisory capacity. The marketing of every class of product would have to be carefully investigated. The Board would require an adequate staff, with possibly a branch in each province, at the head of which would be an assistant working with local committees. It shall be one of the main duties of the Board to make a survey of the conditions which govern the sales of the various products, from the ryot to the final market. Present costs of distribution will have to be known and the possibilities of not only improving existing methods but of discovering new markets must be gone carefully into. Each class of product will have to be taken separately. The problems affecting grain are, for instance, entirely different from cotton. Even the various classes of grain may have to be considered separately. To secure a speedy sale for wheat from the producing areas to the consumers will require special consideration as compared with barley and maize. A start has already been made in the Bombay Presidency and to a lesser degree in the Punjab with cotton. It should be the aim of the Central Marketing Board to secure in every Province the standardisation of cotton on such a basis as would enable it to be sold to manufacturers on its grade mark as Canadian wheat is. The ultimate goal should be the development of co-operative marketing in such a way as to enable cotton growers through sales associations to conduct this business on their own behalf. Growers of tea in India, Ceylon, Sumatra and Java have within the last year arranged for a limitation of their output in the hope that this will enable them to secure better prices. We suggest that the attempt is foredoomed to failure unless growers are also prepared to organise the marketing of their product. Oilseeds, tobacco, fruit, tea, sugar, wool, and hide, all these and many others will only yield to treatment after close investigations and determined efforts are made by a Marketing Board.

These are only a few of the many tasks which it will be the duty of the Board to undertake.

Proposed Jute Control Corporation.

In recent years attempts have been made to control the price of rubber, coffee and wheat by different methods. All have failed for reasons which are well known.

Jute is the only crop of any magnitude which under existing conditions, lends itself to such a form of control as would ensure a stabilised price to the grower. Many Indian economists have pointed out that it is a monopoly and that therefore it should be possible to secure to the producer a paying price. If it is a monoply to India, then this ought to be possible. There is reason to believe that it is. Attempts have already been made in Java to establish the crop there, and also in America and West Africa, but they have failed. It would be difficult to imagine a more suitable country than Java—the climate and soil in parts not dis-similar and cheap labour. In any case it is not grown in any other part of the world, though it has in the past been a paying crop of great value. There is, therefore justification for believing that so far as the producer is concerned it is a monopoly crop, as long as the price is not raised unduly.

There is also some ground for suggesting that the manufactured article has to a considerable degree a monopoly. There are only two products in competition with it—hemp and paper. The former costs several times more and is too expensive to enter into competition with the ordinary jute product. Paper, up to the present, is only in competition with jute for cement bags, and the demand for jute would only be endangered if monopoly powers were used to raise the price unjustifiably beyond an economic figure. But it is no less possible that a well equipped research association could discover other purposes, as yet unknown, for which jute could be used.

It is possible with jute to regulate production. Further, all exports can be cleared through two ports—Calcutta and Chittagong.

To enable control to be effective, it would be necessary to take the following steps:—

(1) A jute Corporation shall be established, with powers to fix prices for the raw material, to eliminate unnecessary cost of distribution, to control output and, if necessary, to undertake distribution and effect all payments. The capital of the Corporation shall be held by the Provincial Governments in jute growing areas in proportion to the average areas grown. The management shall be vested in a directorate representing the various interests involved. The constitution of the Directorate shall be as follows:—

1. Overseas manufacturers—Two representatives for Europe. One representative for America.
2. Indian Jute Mills' Association—Two representatives.
3. Calcutta Baled Jute Association—One representative.
4. Calcutta Jute Shippers' Association—One representative.
5. Calcutta Jute Dealers' Association—Two representatives.
6. Bengal Jute Association—One representative.
7. Directors of Agriculture to represent the cultivator—Five representatives.

8. Representative of Banking interests—One.

Full executive powers shall be vested in the Directorate.

Note.—The interests of the producer will be fully safeguarded by the Government holding the entire capital of the Corporation and having the power to dissolve the Corporation in the event of monopoly powers being used adversely.

Prices shall be fixed in advance in consultation with the various interests involved. Manufacturers and export balers (on behalf of their clients) shall be bound to purchase all their requirements through the Corporation at the stated price.

The Corporation shall be responsible for all surplus jute and shall withhold same from the market unless for purpose which shall not be in competition with the manufactured jute fabric.

Producers shall be formed into local associations, which shall be co-operative societies and subject to the rules and regulations of such. They shall be responsible for the collection and transport of supplies to local depots. The collecting associations shall also be responsible for distributing all payments to their members.

At each local depot the representative appointed by the local association shall take over the jute by weight from the members. It shall then be handed over by him to the *bepari*. Each lot to be moved and kept separate. The *bepari* shall be responsible for delivery to the Central Depot as taken over by him. Each individual parcel shall be reweighed and priced under the existing system. The final price to the grower shall then be determined and credited to his account.

Payment of 75 per cent. of the price fixed by the Corporation shall be made to the association on delivery and weighment of the jute to the local depot. The balance shall be paid when taken over by the central depot purchasers after assortment.

Each association shall keep an exact record of output of all members and of the acreage of their holding. They shall employ a competent manager. The records of the associations shall be regularly inspected by officials of the Corporation. The Corporation shall have powers to settle all disputes. The association shall limit or increase the output of each member *pro rata* according to the requirements of the Corporation.

Each consignment received by the association from its members shall be weighed and marked at the point of collection.

It would be advisable to use the existing channels of trade, as the agents of the Corporation on a commission basis, agreements being entered into for stated periods.

After the raw material is in store it is a matter of ordinary business routine to supply, by whatever channels are decided on, the requirements of manufacturers throughout the world. Existing storage capacity shall be made use of. It may be found necessary to erect extra accommodation for the handling of surplus jute. Manufacturers will have nothing to gain by refusing to take their year's supply, to the limit of their storage capacity, whenever the material can be despatched to them.

Manufacturers shall notify the Corporation of their requirements at the beginning of each season, and shall be bound to take the amount specified. The difficulty of financing the season's requirements by the

Corporation would largely disappear. Jute at fixed prices would then be recognised as a safe security. The banks as at present could hold a lien on the goods. The banker and the manufacturer should therefore welcome the proposal of fixing prices, as it relieves them both of great uncertainty. Manufacturers, having been relieved of existing speculative risks in purchasing their raw material, would be in a position to devote all their energies to improving their technical and sales organisations and to reducing their costs of production. It is well known that the speculative risks of purchasing requirements of raw material are a distinct handicap to manufacturers. The retail price of the manufactured article would not be influenced to any appreciable extent by the difference of say four rupees per maund on the raw material.

It is not inconceivable that under proper organisation material reductions could not be made in the cost of distribution.

The yield of jute in Bengal in 1928-29 was 43,000,000 maunds and its value at 9 rupees was £29,000,000. In 1930 the average price was about Rs. 4-4-0 landed Calcutta. It has been calculated that the cost of distribution is Rs. 2-8-0 per maund, apart from speculation and profits. One rupee per maund means £3,250,000. It is unnecessary at this stage to enter into further details with regard to the distributing organisation which should be set up. It is merely a matter of sound business organisation and efficient accounting. The magnitude of the control need not prejudice the proposal.

The greatest difficulty will be found in the control of the crop output, but it is by no means insuperable. The allocation can be based on the previous output of the ryot. Restriction is no hardship where land can be used for growing other crops. Where other crops cannot be grown on, the ryot can leave a small proportion of his land fallow. A certain income from jute is of much greater value to him. Legislation would be necessary. Powers would be required even to the extent of refusing to allow any but recognised growers to cultivate the crop.

Surplus in any given year of 50 per cent. need be no serious handicap. A considerable carry-over is indeed necessary and is doubtless the ordinary practice of the trade. Gladstone once said that "Faint heartedness was the master vice of the politician". If it can be proved that the economic difficulties are not insuperable, then the benefits of such a scheme to the Indian ryot, and perhaps to the world, are such that however great the administrative difficulties, it should be put in operation.

The existing methods of distribution are:—

1. The cultivator.
2. The Faria and *Bepari*.
3. Merchants (Marwaris and European).
4. Mills, balers and shippers.

There are only three grades—

1. Standard (1st quality).
2. Lightning (2nd quality).
3. Hearts (3rd quality).

The variation in price is approximately as follows:—

When first—Rs. 30 per bale.
2nd—Rs. 27—27/8 per bale.
3rd—Rs. 23—24 per bale.

The greatest difficulty in establishing a successful jute control will probably arise from the taking over of existing stocks apart from the growing crop of the ryot. The whole position must be very carefully investigated and a decision arrived at as to whether it would be sufficient to leave them for disposal through the ordinary channels of trade. If control is confined to the crop in the hands of the cultivator then there will be considerable speculation in the stocks held by the merchants and traders. If the present level of prices is taken at four rupees per maund, merchants would hold up the stocks against the price that is fixed for control. They would receive a gratuitous profit of—say Rs. 4—per maund if the price was fixed at Rs. 8. This would result in many millions of pounds being made by the merchants without any risk to themselves. Moreover, the merchant in holding up the stocks for a rise would disorganise the demand through control.

It may, therefore, be necessary to take over existing stocks. It has been suggested that in order to overcome the difficulty of the manufacturer having made forward sales contracts—that he should be allowed a six months' supply of jute. In the event of any manufacturer having any more jute in stock, this surplus should be taken over by the Corporation. In the event of any manufacturer having less than a six months' supply in hand, he would be given the balance at the price of jute as taken over by the Corporation from the merchants. Manufacturers who refuse to hand over any quantity beyond a six months' supply would be informed that if they refuse to do so, control prices would be raised against them to the extent of one to two rupees per maund. A fair profit would be allowed to the merchants on the stocks in their hands, and all stocks would have to be declared.

It has been suggested that the farias and the *beparis* would withhold stocks of jute in their hands to hand over to the Corporation in the following year's crop at enhanced prices. It may be that a comparatively small percentage of jute could be manipulated in this way, but all traders will be licensed and the Corporation will have power to cancel the licence of any merchant or trader who does not comply with the requirements of the Corporation. Farias and *beparis* must also declare their stocks. In the event of any *bepari* endeavouring to manipulate his supplies, his licence would be withdrawn. The right to withdraw licence gives the Corporation great powers. It would mean that in future the *bepari* would be out of business. The stocks in the hands of the *bepari* which could not be traced would amount to a very small percentage of the whole. As the Corporation will make a considerable profit on jute taken over, the financial stability of the Corporation would not be affected by a comparatively small proportion of illicit stocks having to be taken over in the following year's crops. We are informed on good authority that old jute can be spotted with comparative ease, if so, farias and *beparis* will run great risks. They will probably find that it is not worth their while.

Payments to the cultivator will be made in the following way. Associations as we have already suggested will be established to which will be

attached groups of villages. One cultivator from each village shall be appointed to the Committee of Management. A Secretary Manager shall be elected by them and shall be their paid servant. He shall be responsible for keeping all books and transacting all correspondence between the Corporation and the society; he shall be responsible for organising the collection of jute on given days. He shall also be responsible for supervising the area of jute grown according to the requirements of the Corporation. Each member of the Committee shall in his own village assist in arranging the allocation in the village.

When a crop is ready for delivery, the Corporation will fix three collecting days during the season for each association, the jute will be taken by the cultivators to the appointed depot. It shall be weighed in the presence of the Manager and at least one of his Committee and the *bepari* or faria, whose business it will be to convey the jute to a central depot. Each consignment as weighed will be labelled with the name of the grower. The weight shall be invoiced in the books in the ordinary way. A servant of the Corporation or preferably of the bank will attend each collection with cash in hand. As each lot of jute is weighed and taken delivery of, the grower shall receive a cash payment of 75 per cent. of the fixed price.

The *bepari* shall be responsible for delivering the jute as taken over by him to the central store. A responsible official of the Corporation shall then re-weigh each consignment and price it for quality according to trade custom. The remaining percentage due to the cultivator shall be paid to him on the next day of collection. At the end of the season any balance due to the cultivator for his last consignment shall be sent to the Committee of Management of his association for distribution amongst the members.

It has been suggested that this method is not possible in practice because of the magnitude of the task involved. We shall examine it in detail.

In the 1921 census the number of population supported by jute agriculture is given at 4·2 millions. For the purpose of calculation let us assume that $\frac{1}{4}$ of that number are cultivators; this gives us one million. Let us make a further assumption that there is an average of 20 cultivators in each village (the average number we are informed on good authority is considerably more) and that the average number of villages which could be formed into a jute collecting depot would be 20, we have therefore to deal with 50,000 villages and 2,500 selling associations. Allowing for 3 collections and 3 bank assistants at each collection to do the necessary book-keeping and effect payment, a staff of five or six hundred would be ample. I am informed on the best of authority that the banks could provide this staff with ease and that insurance of the money in transit could be effected at a rate of 3/32 per cent.—a trifling charge.

Apart from all other considerations, any scheme that would enable the cultivator to handle the actual money which his produce realises, is deserving of the most serious consideration by all who are interested in his welfare. Credit Co-operative Societies might eventually take over the work of payment, but this would take some years; the actual collecting associations would be run as co-operative societies though formed compulsorily, but in the initial stages it would be advisable to pay over the monies direct to the cultivator as suggested.

Chairman: We will take now for discussion Mr. McDougall's paper on "Proposed Jute Control Association" in consultation with Diwan Bahadur Sir T. Vijiaraghavachariar who has been kind enough to be with us again today. Apparently Mr. McDougall is following the American maxim "to grow less and make more," here as well.

Mr. Ramdas Pantulu: First of all I want to know whether Mr. McDougall has read my second note on Marketing which is more important and where I have given extracts from the "Businessmen's Commission Report". I have also added a note on Agricultural economics by Mr. O'Brien. They have in America also created an association called the Stabilization Corporation where businessmen, producers, and all other varied interests have got representation. I would first of all like to make a general observation on the scheme which is embodied in the appendix to my note.

Mr. McDougall: With regard to these extracts I am in entire agreement with the economic principles outlined there. They have very concisely and very clearly outlined the views that I myself have been thinking for many years.

Mr. Ramdas Pantulu: In your scheme I find that you recommend the representation of producers by the Director of Agriculture.

Mr. McDougall: That I consider to be only a matter of detail. My knowledge of the actual conditions prevailing in the Bengal Presidency was not sufficient to enable me to see how the producer is going to have representation. That was merely a suggestion thrown out. If a better method of representation for the cultivator can be suggested then I have no objection.

Mr. Ramdas Pantulu: I suppose you have agreed with me that in a combination of business interests representation for the producer is an essential feature in order to safeguard his interests. Otherwise the idea in your mind for getting the producers effective prices will not bear fruit.

Mr. McDougall: Yes. I would prefer details to be worked out later.

Mr. Ramdas Pantulu: Now with regard to the financial implications of your scheme. At present a good portion of the finance comes from the middlemen, *bepari*, the big merchant and so on until the goods reach the manufacturing mills or export houses. It is estimated that Rs. 2 to 2½ per maund are absorbed by the middlemen out of the prices which the manufacturing mills or the export houses pay for the jute. Therefore, the producers get something which represents Rs. 2 to 2½ less than the price which the consumer pays.

Mr. Khaitan: I question that statement of yours. I do not think it is a correct state of affairs. May I know where from you got that information?

Mr. Ramdas Pantulu: I saw it from a speech made by Mr. Nalini Ranjan Sarker in Bengal. Something to that effect can also be found in Mr. McDougall's paper itself. If my statement is not correct, you may correct the same later. (To Mr. McDougall)—May I know how you expect this Corporation to be set up? The value of the produce is estimated at Rs. 30 to Rs. 40 crores. That being so the Corporation will require a very large amount of working capital and a good share capital too. I notice in one part of your paper there is an indication that the whole capital should be given by the Government.

Mr. McDougall: I have indicated that the financing will be done by the commercial banks.

Mr. Ramdas Pantulu; You have said in your paper that "The interests of the producer will be fully safeguarded by the Government holding the entire capital of the Corporation and having the power to dissolve the Corporation in the event of monopoly powers being used adversely".

Mr. McDougall: I refer to the Share capital.

Mr. Ramdas Pantulu: You, therefore, expect the working capital to be provided by the commercial banks?

Mr. McDougall: Yes.

Mr. Ramdas Pantulu: You know the commercial banks will not advance any money unless on the security of the produce kept in the warehouses.

Mr. McDougall: I am not quite sure about that. Here you have a complete monopoly for jute? The *beparis* will have to be licensed. It may be we may have to ask for some guarantee from them.

Mr. Ramdas Pantulu: You propose to retain some of these middlemen.

Mr. McDougall: Yes.

Mr. Ramdas Pantulu: Have you gone into the details of calculations, etc., with regard to the amount used up by these middlemen which ultimately is charged against the producer?

Mr. McDougall: I have had absolutely no opportunity of going into details of that kind but I am quite certain that the costs will be less than at present because the *bepari* is now spending his time in going round collecting innumerable small quantities and parcels of jute, and this accounts for his enhanced cost at present. Under this scheme he will get his boatloads without much difficulty and the cost of collection and distribution will be lessened. There should be no doubt about that—

Mr. Ramdas Pantulu: With regard to the Producers' associations, could you give us a little more idea about it and let us know whether you contemplate them to be constituted on the lines of the Producers' Associations in Canada, the Fruit Growers' Associations in California and so on?

Mr. McDougall: Very much on these lines. These co-operative organisations under their own management.

Mr. Ramdas Pantulu: Who compose the collection organisation? The producers.

Mr. Ramdas Pantulu: And the local depots?

Mr. McDougall: They are places where the *beparis* will take their jute.

Mr. Ramdas Pantulu: Therefore, the local depots are the branches of the Corporation?

Mr. McDougall: That is so.

Mr. Ramdas Pantulu: You say "Producers shall be formed into local associations, which shall be co-operative societies and subject to the rules

and regulations of such. They shall be responsible for the collection and transport of supplies to local depots. The collecting associations shall also be responsible for distribution and payments to their members". Therefore, is it your point that the local depots are outside the local associations?

Mr. McDougall: No. I am sorry if there is a misunderstanding or if I have not made myself quite clear.

Chairman: I want to understand the position clearly. The local depot is the depot of the local association and the cultivator takes his jute to the local depot and then transfers it to the Central Depot. Is that so?

Mr. McDougall: Yes.

Chairman: The *bepari* is responsible for delivering the jute at the Central Depot. The producer brings his produce to the local depot. Is that the position?

Mr. McDougall: That is so.

Mr. Ramdas Pantulu: Are there more depots than associations?

Mr. McDougall: The local association and the local depot are one and the same.

Mr. Ramdas Pantulu: Therefore, if you say the depot of the local association, that would be more correct and explicit.

Mr. McDougall: That is so.

Mr. Ramdas Pantulu: Then later on you say "Payment of 75 per cent. of the price fixed by the Corporation shall be made to the association on delivery and weighment of the jute to the local depot". That payment will be made by the Corporation. Is that so?

Mr. McDougall: Yes.

Mr. Ramdas Pantulu: Through what agency will the local depot be in touch to make money available?

Mr. McDougall: Through the agency of banks. The managers of these local depots will have to be in communication with the Corporation.

Mr. Ramdas Pantulu: And, therefore, how will you put these people in touch with the Corporation—through what agency? I suppose there will be hundreds of associations?

Mr. McDougall: There will be hundreds of them. I understand there are about 2,500 of them.

Mr. Ramdas Pantulu: Therefore, if there are hundreds of them, what organisation will you have for the local depots getting their payments as soon as the goods are brought?

Mr. McDougall: In the first instance, the corporation must have some agencies down in these districts in more direct touch with the carriers and the managers of these associations. In my opinion it is quite impossible to transact the whole thing from the central office in Calcutta. You require sub-agencies attached to the big godowns or wherever you collect jute and these, at the direction of the Corporation, will be in constant touch with your managers, making all the arrangements necessary. So far as the actual payment is concerned, I should very much prefer to use the staff of the banks. The banks would, at the instance of the district managers of the Corporation, make the necessary arrangements to take the money to the collecting centres and hand it over to the local association.

Mr. Ramdas Pantulu: So a cheque upon the bank by the Corporation will be cashed by the local association by some convenient means and the money brought to the local association, and the local association which is composed of numerous producers would distribute the money among the producers.

Mr. McDougall: There are many ways of doing it, I do not want my memo. to be taken as the last word. On the contrary, I shall be surprised if you accept the proposal if you will not have to make changes in the organisation as outlined by me. I am not very sure that the corporation will not be well advised to divest themselves of the responsibility for making these actual payments. That might be done better by the bank staff. If the corporation employs a sufficient number of men to do it at a given period of the year, it will require, as I have indicated, some 500 or 600 men. I do not see very well what these men are going to do during the rest of the season, whereas it is not inconceivable that the banks might be able to so arrange their staff that they can supply men for this purpose, and men who are accustomed to handle money. It is the bank's money and I am quite sure it is safer to leave it in the hands of the banks.

Chairman: I want to understand the position a little more. The central corporation is ultimately responsible for the financial part of the scheme. The producer brings his produce into the local depot. What happens thereafter? 75 per cent. of the money has thereafter, according to your scheme, to be handed over to the local association for distribution among the individual producers. It is that stage that I want to develop a little more. After jute has been brought into the local depot and apparently until the corporation authorises somebody (it may be the bank) to make the 75 per cent. payment, what will happen and how is the corporation going to function properly and efficiently in the matter? The member in charge of the local depot can produce a statement indicating that so much jute has come into the local depot. Do you contemplate that as soon as that statement is passed on to the central corporation, the corporation will authorize a bank to make the payment to the local association without in any way satisfying itself whether the facts stated by the local association are correct or not?

Mr. McDougall: It will work in this way: the corporation will be in touch with the local manager. He will forward to the local depot of the corporation a statement of the probable supply of jute.

Chairman: You said that the local depot was the depot of the association: is it the depot of the association or of the corporation?

Mr. McDougall: The local depot is the depot of the producers' association?

Chairman: Then we come to central depots. As I understand your scheme, the *bepari* transports the jute from the local depot of the association to the central depot of the corporation. Am I correct?

Mr. McDougall: The *bepari* collects the jute from the producer's depot and takes it to the first depot of the corporation.

Chairman: That you call the central depot?

Mr. McDougall: Yes.

Chairman: Therefore, the first stage is the local depot of the association to which jute is brought by the producers; the next stage is the central depot of the corporation to which jute is brought by the *bepari* from the local depot.

Mr. McDougall: Yes.

Chairman: Let us now come to the payment part. There is a local manager of the association in charge of the local depot?

Mr. McDougall: That is so.

Chairman: Is it part of your scheme that the local manager, as soon as he receives a consignment of jute from the producers, sends a statement?

Mr. McDougall: No; the local manager on consultation with the district representatives of the corporation will fix a certain day for the collection of jute at the local producers' centre. The jute will be taken there by the producers and handed over to the *bepari* whose duty it will be to take it away from there. Immediately it is weighed and handed over, the bank representatives will be there. The money will be handed over to the producers when the produce is taken over by the *bepari*.

Chairman: Therefore, there will be no payment until the stuff is taken over by the *bepari*.

Mr. McDougall: But the two things will coincide. As the stuff is weighed, the *bepari* takes it, then it is booked and the money is handed over. On the other hand, I can visualise the development of that scheme as time goes on.

Chairman: I thought you contemplated two weighments. You say—

> "At each local depot the representative appointed by the local association shall take over the jute by weight from the members."

That I take it is the first weighment. Then in the same paragraph you say "each individual parcel shall be reweighed and priced under the existing system."

Mr. McDougall: That reweighment and pricing will be made at the central depot when the *bepari* takes the stuff there. The *bepari* shall be responsible for delivery to the central depot as taken over by him and if there is any shortage in the quantity, he must be held responsible.

Chairman: Therefore, the payment to the producer will be made on the first weighment at the centre and as it stands, the weighment will take place as each individual member brings in the jute, not when it is taken over by the *bepari*.

Mr. McDougall: That is so.

Chairman: Suppose I, the producer, take the produce to a local depot and somebody there takes over the jute from me and he probably gives me a document showing the weight of the jute. How then does the corporation come in at that stage?

Mr. McDougall: The *bepari* is the agent of the corporation.

Chairman: That is the second stage. As it is, you must remember that there would be two classes of losses. First, losses in the local depot itself before the stuff is handed over to the *bepari*.

Mr. McDougall: How can there be a loss there? The producer simply takes the jute there on the day appointed by the authorities, and it is immediately handed over to the *bepari*. The payment practically coincides with the handing over.

Chairman: I am not sure from the practical point of view whether the handing over and the bringing over can be made to coincide. As it is you have to fix a day. I take it that at each station there will be more than one local depot, or will there be only a single depot?

Mr. McDougall: There will be a single local depot representing, let us assume, 20 villages.

Chairman: All these people bring their jute and the jute is weighed immediately. You contemplate that as soon as it is weighed it will be passed on to the *bepari.*

Mr. McDougall: Yes, his staff will take delivery.

Chairman: Therefore there will be one weighment at this stage. The weight when the jute is taken over from the individual producer and the weight at which it is issued to the *bepari* will be the same.

Mr. McDougall: Yes.

Chairman: The *bepari* will probably take over more than one single lot.

Mr. McDougall: He will have to take over many lots.

Chairman: Therefore, from the practical point of view, as he will be responsible for the losses thereafter, I am pretty sure he will insist on another weighment.

Mr. McDougall: Why? His representative will stand at the scales and see it being weighed.

Chairman: Therefore, he will have to keep a large number of people there.

Mr. McDougall: Not necessarily. It does not take long to weigh goods as I know from my practical experience of weighing wool.

Mr. Lamond: Each lot has to be weighed and kept separate. Is that possible?

Mr. McDougall: I do not think it is impossible at all. If there are, say, 200 lots, each lot is weighed as it is taken over.

Mr. Lamond: The stuff has to be taken over and then put into the general pool; I do not see how it can be kept separate.

Mr. McDougall: The corporation must have a great many practical jute experts.

Mr. Lamond: I do not know the quantity each individual brings in.

Mr. McDougall: Nor do I, but if you are going to take over the stuff and pay the full amount at the local depot, then undoubtedly it is not necessary that the corporation should have as many jute experts as there are depots. One expert can attend to several depots, but you would certainly require a few hundred, even 400 or 500, jute graders. In England if we were working the Wool Growers' Association on these lines, if it was required we would produce sufficient graders to take over all the wool in England in this way. Whether there will be sufficient experts that the corporation can depend on to fix the actual price at the local depot or not, I do not know. If there are, it simplifies the scheme enormously, because the actual price can be fixed as taken over from the producers.

Mr. Khaitan: Perhaps at this stage I may be allowed to draw Mr. McDougall's attention to one or two points.

Mr. McDougall: Before you do so, I should like to say what I visualize if you accept the scheme or a similar scheme. Before very long each distributors' association will have its own depot where their manager will take over jute as our manager takes over wool on any given day from the producer. It is held there under lock and key on behalf of the bank or whoever the financing authority is; this will avoid any question of the producers having to collect the stuff at any given centre and in a given day. That is to say, they can take it into this local depot on their own, where there will be a proper godown or warehouse that will keep the jute dry. This arrangement will ultimately make it very much easier for the producer and very much easier for the corporation. I cannot see this being carried out to start with, because there would be no money to build these little godowns. It would take some time. But as I visualise it, that will be the ultimate goal to reach.

Mr. Khaitan: We have ourselves been trying to evolve a scheme of this nature. Do not please think that I am antagonistic to your scheme. There are some technical matters which perhaps have got to be considered.

Mr. McDougall: I am sure there are innumerable technical matters to be thrashed out. I would remind you that in England when I saw the first memorandum on control issued by the Ministry of Food which I was asked to examine, I had my heart in my mouth; the thing was so utterly impossible in practice I was in despair. But before three months were over, by the combined effort of all the brains that went into the scheme, we made it as sound as a bell.

Mr. Khaitan: I am only saying that there must be difficulties in the beginning and we have to overcome them and not be overcome by the difficulties.

Mr. McDougall: That is so.

Mr. Khaitan: You have mentioned three grades of jute in the memorandum. I wonder if you are aware that these are three of several grades used in respect of packed bales of jute as they are exported. These grades have nothing to do with what we call 'loose' or 'kacha' bales or what is even sometimes called raw jute as distinguished from 'pucca' bales of jute in the form in which jute is exported. Even in pucca bales there are many more grades than you are thinking of here. In the 'Standard' (first quality mentioned by you), some carry the jute marks and some sell on the basis of their own marks. Similar is the case with 'Lightning' and 'Hearts'. Then there are 'Daisees' and 'Red marks', the latter is the best quality of jute exported. Then there are certain grades which are simply sold by marks as they are not covered by any individual grade. But these apply only to pucca bales of jute; after the kacha bales are collected the jute is cut, the moisture is ascertained and the whole jute is assorted and packed according to the different grades which may be required for export purposes. These grades are not recognised or bought as such grades by the jute mills in Calcutta who are the biggest consumars of jute.

Mr. Ramdas Pantulu: The Bengal Report says that jute is classified into five grades, 1, 2, 3, etc., and rejections.

Mr. Khaitan: I am coming to them. So far as the mills and balers are concerned, they buy jute according to a quite different gradation. The threes are perhaps the best at present, then the fours and then come rejections. Then jute is also graded according to the different districts; for example Narayanganj fetches a better price than, say, 'Tarpasa'. They are even called district jute and 'jak' (which means high class). You will remember that jute as it comes contains roots. The roots have got to be cut before they are packed into big bales. So far as the mills are concerned, they sometimes buy jute separately and sometimes with the roots as it suits them to buy. Then there is the question of moisture, then the question of the kind of spinning jute yields itself to. It is just upon that that the traders have failed to come to an agreement as regards the fixing of various gradations. Then there is the length of jute, apart from strength, then the percentage of roots, then the question of colour too. When jute comes to a local depot, you contemplate that 75 per cent. of the price fixed by the corporation should be paid at the local depot to the producer who brings the jute. Having regard to the difficulties about what price should be fixed in respect of a particular bundle of jute that comes, who should be made responsible to fix the appropriate price in respect of the jute?

Mr. McDougall: May I ask you a question? Taking any given district, I recognize that one district is almost certain to produce a better quality of jute than another. That applies to every commodity in the world that I know of. Will the value of the cultivator's jute show a greater variation than 25 per cent.?

Mr. Khaitan: It is quite possible that in some districts the variation may be more, but ordinarily in the case of jute in one particular district or at one particular depot the price would not vary by more than 25 per cent. subject of course to the question of moisture and roots.

Mr. McDougall: I recognize that, but after all the local manager will have to accept some responsibility for that. If he, for instance, handed over a very bad sample of jute, the corporation would be justified in taking steps to prevent that.

Mr. Khaitan: When I mentioned to you the question of root and moisture, I did not mean that the jute should necessarily be a bad sample. It may be quite good jute, but it may have a larger percentage of moisture in it or a larger percentage of roots.

Chairman: It would be very useful if at this stage you tell us how the price is fixed.

Mr. Khaitan: There are some collecting centres and some villages round about. There is one important village to which the representatives of merchants, the representatives of the people who have their offices at big centres, etc., go, *e.g.*, Narayanganj. From the villages the jute is brought to the collecting centres either by the agriculturists themselves or by people who act on behalf of the agriculturists who are known as *farias* (some class of middlemen) who charge a little brokerage. They sometimes buy direct from the cultivators, then they become *beparis*. There are some class of brokers also who collect the jute to the collecting centre; perhaps the agriculturist himself comes and then between the purchaser and the *bepari* or the broker, the price is fixed. The jute is actually inspected, they examine

the percentage of moisture, the percentage of roots. The price is then paid and they come away with the goods. They surely make mistakes, but on the whole the price works out all right.

Chairman: The responsibility is there.

Mr. Khaitan: Both sides take the responsibility upon themselves. The thing, however, works out on an average quite all right. Some people who have got competent representatives are able to save about 2 to 4 annas a maund. It is after all on the basis of competence of the agents that profit or loss depends.

Mr. McDougall: With regard to this matter it might interest your Committee to know how an organisation of this kind used to be controlled in Scotland and England during the war with regard to the taking over of fat cattle.

Mr. Khaitan: There is just this difference in conditions prevailing during the war and during normal times. During the war the conditions were quite abnormal and purchases were made for the purpose of running the business without paying much attention to the quality.

Mr. McDougall: But in Scotland and England very great attention was paid to quality. I think it would interest you to know what is possible under proper organisation. An organisation was set up to control the price of live stock. Various grades of cattle were fixed. Now we tried to get the farmers to agree to this control and grading. It was criticised on the grounds that it would be utterly impossible to get a sufficient number of men at all these markets who would be in a position to fix the grade for live cattle. There was however no difficulty and experts were able to gauge it with marvellous accuracy.

Mr. Khaitan: The same thing happens with regard to jute. They are able to do it with marvellous efficiency. May I know whether it is part of your scheme that whatever basis is fixed by the representatives of the local depot should be finally accepted by the producers as regards quality.

Mr. McDougall: If you think that you could get a sufficient number of men, say 500 or 600 of them in the jute producing area in whom the Corporation could depend then I would have no objection at all to having the price definitely fixed at the time it is taken over from the cultivator and paying him in full. It is all a question of local knowledge as to whether you could depend on your men. In the organisation for the grading of cattle to which I referred to a little while ago, when the whole lot of them were killed and weighed out after 3 years of control it was found in Scotland that the association had lost only about £30,000. When you consider the turn over of this business which worked up to several millions of pounds this loss is but a very infinitesimal fraction per pound.

Mr. Khaitan: What I want to know is that unless that is done or can be done how else would your scheme work after the producer has handed over the jute to the *bepari* at the local depot. Is it your intention that the price should be fixed finally at the Central Depot?

Mr. McDougall: Yes, according to the scheme.

Mr. Jadunath Roy: It seems to me that it is impossible.

Chairman: As I understand it Mr. McDougall's scheme seems to be this. Lots of bundles of jute are taken to the local depot and there it is separated and handed over to the bepari as separate parcels. The bepari takes it to the Central Depot as separate parcels and at the Central Depot the price is fixed. My point is whether this could be worked in practice?

Mr. Ramdas Pantulu: If there is only one local association for every 20 villagers, I am afraid the producers in their thousands will have to go there.

Mr. Jadunath Roy: There will be about 200 to 500 producers in each village.

Mr. McDougall: That makes the problem simpler.

Chairman: Let us therefore assume that there will be about 10,000 men who bring their produce to the local depot. How will it then simplify the problem?

Mr. McDougall: My assumption was that there would be 2,500 associations with about 20 villages attached to each. According to Mr. Roy on his lowest figure we shall have 5,000 villages only. Five villages to each association will give us 1,000 associations.

Sir T. Vijaraghavachariar: How many villages grow jute in Bengal?

Mr. Jadunath Roy: In East Bengal almost all the villages grow jute.

Chairman: Is it a practical proposition, in view of your water ways, etc., for 20 villages to bring jute to one local depot?

Mr. Jadunath Roy: At each *rat* villagers from 4 or 5 villages come to sell their jute.

Chairman: That being so would it be a practical proposition to have one local depot for every 20 villages?

Mr. Jadunath Roy: It is not possible.

Mr. McDougall: Then you can have one depot for every 4 or 5 villages.

Mr. McDougall: Do I take it Mr. Khaitan that jute is brought by producers in bales?

Mr. Khaitan: They come in bundles tied up with a string or jute plant itself.

Mr. McDougall: Is it possible to put a label or something as soon as they are received at the depots?

Mr. Jadunath Roy: The producers do not sell their jute all in one lot.

Mr. Khaitan: It would be more advantageous to the producer if assortment and grading arrangements could be made in the local depots and the price fixed there so that the subsequent difficulties of keeping the parcels separate and so on would be minimised.

Mr. McDougall: I would be in favour of that provided it is possible to get sufficiently qualified men to do that work at the depots.

Mr. Khaitan: A large number of men are no doubt available. Under private employ at present they are doing that work very well.

Chairman: From the point of view of the buyer undoubtedly. But as a matter of fact we are here trying to secure for the producer his fair price.

Mr. Khaitan: At the present moment there are so many buyers at one particular place that the seller is protected by the competition between the representatives of the various buyers and as a result of that competition the buyer is absolutely protected.

Chairman: But when once the purchase is made through a local depot that competition ceases to exist.

Mr. Khaitan: There are some graders who are kept at some local depots. They are not very highly paid men but get only Rs. 40 or Rs. 50 per month. Those who are a little more intelligent than these people may be able to get the jute properly graded.

Mr. McDougall: The manager of the association is there, the representatives of the village and the village headman are there. They will be able to spot if there is any unfairness in the procedure. The books of the Corporation will be public property. There can never be any collusion between these men. Even if the jute is weighed and graded at the primary depot it will again be re-weighed at the Central Depot.

Chairman: The grading of the local depot will be accepted by the Central Depot. Is that the idea?

Mr. McDougall: If possible. If the buyer or the grader or the official at the Corporation is not doing his work satisfactorily then the Central Depot would be showing a loss or a profit. It is for the Corporation to do this business without any profit-earning out of those proceedings and therefore in the event of any grader proving to be unsatisfactory he could be turned out. The methods adopted in New Zealand for banks are very much the same. The graders there go to the country and fix the price of lambs they are going to kill say at 32 lbs. per head at the rate of say 8*d* or so. I am speaking from memory but I think the figures are about correct. They are only allowed a difference of a quarter of a lb. per lamb. If they bring in lambs showing a greater variation than the margin allowed they say, you do not know your business, get out.

Mr. Khaitan: Let us take to the function of the bepari. He takes over the jute at the local depot. Do you consider the bepari to be an independent person or a servant of the Corporation?

Mr. McDougall: He will be a commission agent of the Corporation. He will make his own transport arrangements for the jute to go from the local depot to the Central Depot.

Chairman: The bepari, therefore, is not a paid servant of the Corporation but only receives a commission for his labour. He takes over the jute at the local depot and hands it back at the Central Depot for which service he is remunerated. Is that the idea?

Mr. Khaitan: In other words he is only a carrying contractor.

Chairman: Therefore at the Central Depot he will be paid the cost of transport and a reasonable profit?

Mr. McDougall: Yes, that is the idea

Sir T. Vijaraghavachariar: Would you entrust the whole work of grading and carting to be done on behalf of the Corporation to the bepari who will be only a commission agent?

Mr. McDougall: Is the bepari an expert in the grading and valuing of jute?

Mr. Khaitan: At present he takes the risk, pays for the jute and sells it. He does the work quite satisfactorily.

Mr. McDougall: Then why not make the bepari a grader?

Mr. Khaitan: They will have to be drawn from that class alone.

Sir T. Vijaraghavachariar: I take it that you are not wedded to the details of the scheme.

Mr. McDougall: Not at all.

Chairman: Would it be possible to make the bepari a grader whether he is a paid servant of the Corporation or not?

Mr. Khaitan: If he is paid a salary then there may be other complications. The present idea of Mr. McDougall is that he will be paid transport charges for the work he does.

Mr. McDougall: If it is not inconceivable I do not see any reason why the bepari should not be made the actual grader.

Mr. Khaitan: If you do not separate the carrying contractor from the grader there may be difficulties. That is my point.

Mr. McDougall: It is for you to see to that. I do not worry myself about details.

Mr. Ramdas Pantulu: But I am asking this question with a definite purpose. You say that co-operative associations should not take up the work unless they have their own men.

Mr. McDougall: I am trying to prove to you that even with the servants of the corporation being responsible for the grading it is utterly impossible for the cultivator to lose any appreciable amount with the corporation as a public body on which are represented the producers. Their books will be open to the inspection of the public; as a matter of fact it will be one of the basic principles of the constitution of the corporation that no profit shall be made in that way.

Mr. Ramdas Pantulu: I only wanted to know if in other countries co-operative produce organisations allow the business men and merchants to do the grading for them, or do they do their own grading? Your idea of co-operation is that the co-operative associations have graders from the merchants.

Mr. McDougall: Because they are the only experts. I would not trust the cultivator to grade.

Mr. Ramdas Pantulu: So you would not let the co-operative society have its own graders?

Mr. McDougall: I do not think so. The co-operative societies are fully safeguarded by having representatives on the body of the corporation. Further, if necessary, the manager of the collecting depot can go to the central depot and say 'please let me see your books, how do the grades from our depot turn out?'

Mr. Ramdas Pantulu: The point is whether he can employ his own grader in the co-operative association.

Mr. McDougall: No.

Mr. Khaitan: There is one thing I should like to ask you and that is about the question of price. Do you not think that the success of your whole scheme depends upon the feasibility of fixing the price for the whole season?

Mr. McDougall: There may be no variation in prices.

Mr. Khaitan: The season begins on the 1st August and goes on till 31st July of the succeeding year. The sowing starts late in February or in March and goes on till April. When sowing takes place in March, at present what happens is that all the big merchants and the big brokers send their representatives out to the country and they ascertain in what relation to the previous year's sowing the sowing goes on in the present month for instance. They make some calculations on the basis of the sowing. If it is, say, seven-eighths of the previous year, then the price tends to rise and if it is one and one-eighths of the previous year, then the price tends to fall. That is in the middle of the season (March). After March there is the question of rains. If there is good rain, the price tends to fall, if there is bad rain, the price tends to rise. Together with all these have to be taken into account the question of the crop left over in India with the cultivators, with the balers and with the mills, and also the stocks left over in countries outside India, *e.g.*, Europe and America. All these factors are taken into account in fixing the price from day to day. With the same amount of rain it is possible in some year to have a longer plant and in some year a shorter plant. On the basis of all these, the prices go on varying, especially in March and August. Jute really begins to come in September, although the season commences in August.

Mr. McDougall: When does the harvesting season end?

Mr. Khaitan: It ends in September.

Mr. McDougall: So you have practically only two months of harvest.

Mr. Khaitan: The harvest begins in July, but a small quantity comes in July, the largest harvest is done in August. The retting of the jute is done mostly in August and September and the largest quantity of jute comes into the market in September, October and November. So far as Calcutta is concerned, it comes up to December because it takes some time to bring the jute over. I want to know how it is possible to fix one price owing to these difficulties.

Mr. McDougall: I see no reason why you should not any more than the Sugar Beet Corporation fixes a price for sugar-beet in England which extends from the middle of September right on until the middle of January. With regard to the price to be paid by the mills, there will of course have to be a variation depending on when the mills take over the supplies. If, for instance, a mill takes over 50 per cent. of their supplies in October and November (that is only a hypothetical date) and another

mill does not want jute until the following July, then obviously the corporation are spending out of their money during that period the increase in price to the manufacturer or to the exporter. But with regard to the actual price, I see no reason why there should be any variation at all in price except in grading and interest on money.

Mr. Khaitan: So far as grading is concerned, there must be variation in price, but that will be fixed at the beginning of the season or perhaps in August. But what about the months, say, from February to July when the conditions change, the condition of the crop, the area under jute, etc.

Mr. McDougall: That does not affect the principle at all. The only question is the carry-over that is required.

Mr. Khaitan: Let me make the point a bit clearer. Suppose in March or April it is thought by the market that there is going to be a big crop next year and then the rate will have to be fixed at a lower level. This will set the buyers not to buy the jute, or they would buy as little jute as possible. They do not buy from March onwards up till, say the end of July, because they would hold their hands for the lower price. Let us take two hypothetical cases of rates. In, say, the season 1930-31 the rate is fixed at Rs. 60, and having regard to the large crop to be grown from March onwards for the season 1931-32, people think that the price ultimately will be Rs. 40. Now the corporation has taken over jute at Rs. 60, but on account of the bigger crop next season, it has got to sell a good quantity of the jute at the rate of Rs. 40 only, the price fixed for the season.

Mr. McDougall: No, there will be no variation like that at all. The variations for the season would be allowed for in the carry-over of the corporation. For instance, if you had one bad season, the corporation would as a matter of business policy take the average of a number of years into account. They might say that a margin of 50 per cent. carry-over would be required. The price is definitely fixed to eliminate speculation and to eliminate all the troubles that arise with regard to fluctuation. If you had a bumper crop in any one year that made an unduly heavy surplus for the corporation to carry over, then you would have to ask the cultivator to reduce it in the following year. It is not inconceivable that as you become more stabilised you might say to the cultivator "we are asking you to produce 10 per cent. more, but we are going to give you 10 per cent. more in price for the following year's crop". Even if that crop is a bumper crop, it will not affect the stability of the corporation at all.

Mr. Khaitan: This scheme depends firstly on being able to fix the price, secondly on being able to keep the price as uniform as possible during successive years, and thirdly on the cultivation of jute being controlled according to the scheme of the corporation.

Mr. McDougall: That is so.

Mr. Khaitan: Another difficulty is about larger or smaller demand because the corporation may have calculated on the basis of consumption of say, 80 lakhs of bales, but the demand may have been for one crore bales. Or, if they calculated on the basis of one crore, the demand may have been only for 75 lakhs.

Mr. McDougall: Quite right.

Mr. Khaitan: All these will have to be taken into account. You do not think that it would be possible to fix Rs. 60 in one year and Rs. 40 in the next year?

Mr. McDougall: I think it would be unfortunate if that had to be done and I see no reason why it should be, provided the corporation use anything like ordinary intelligence in carrying over sufficient surplus to avoid famine during any one year. I understand from men in the trade that it has always been the custom of the trade to carry over considerable surpluses.

Mr. Khaitan: At the present moment the trade carries over stocks, but when prices are made uniform, would it be in their interest to carry over? At present the prices are low, they expect that the prices will rise and therefore to get the benefit of the higher price they carry over; but if they expect that the prices will be lower, they do not carry over, and if the prices continue to be the same, they would not like to carry over, because jute deteriorates.

Mr. McDougall: It does deteriorate if you keep big stock, but at the same time you must remember that under a scheme of this kind where your price is fixed in advance you will not have those violent fluctuations of demand that you have at the present moment. The mills will only take what they require for their actual year's output.

Mr. Khaitan: The mills actually keep a stock of nine months, but this year, they have got a stock of about eighteen months.

Mr. McDougall: They have a very terrible situation to face this year.

Mr. Khaitan: But they keep a stock of nine months because during the active season they get the stuff at a lower price, whereas from March onwards they have to pay a higher price. It is in their interests to see that the rates are higher in March ordinarily. The mills themselves see to it that the rates are higher in March and that induces the cultivators to sow a larger area under jute.

Mr. McDougall: I did not think that Calcutta would be responsible for such machiavellian tactics.

Mr. Khaitan: They are tricks of the trade and are followed all over the world.

Mr. McDougall: The poor cultivator has to suffer all the time.

Mr. Khaitan: Calcutta has men like Mr. Buckley, and others who are very intelligent.

Mr. McDougall: You do not suggest that the banks lend themselves to these operations?

Mr. Buckley: The Jute Mills do not require money these days, they are too well off.

Mr. Khaitan: If the prices are actually uniform, why should the mills or any baler keep a large stock? He will be sure of getting his stock at a certain fixed price all through the whole season.

Mr. McDougall: It is not inconceivable that the corporation might allow a trifling percentage. I am talking without seriously considering the point, but it is not inconceivable that the corporation might say to the manufacturer: "if you take your whole year's supply just now when the

stuff is in transit, it saves warehouse charges, you have got accommodation to take your whole year's supply right away, and we give you the whole year's supply of jute at this moment at a certain percentage less than if you take in stated quantities throughout the year".

Mr. Khaitan: But even 12 per cent. may not be a sufficient inducement to the mill to take it. Let us assume that the average bank rate for the year has been 6 per cent. They save 6 per cent. but they suffer insurance, the deterioration in the quality of the jute, etc., and taking all these things into account, it may perhaps not be a sufficient inducement to the jute mill to buy six months ahead even if they get 12 per cent. a year, I mean 12 per cent. per year discount on the jute. How does this affect your scheme?

Mr. McDougall: I do not think it would affect it seriously, because if jute merchants do that, it is not inconceivable that we might have to take over part of their warehouse stores.

Mr. Khaitan: In large warehouses it may have to be done by the central corporation.

Mr. McDougall: Undoubtedly.

Mr. Khaitan: You say that a certain discount may be allowed to the buyer if he buys his requirements for the whole year?

Mr. McDougall: I say that it is not inconceivable that a certain discount might be allowed.

Mr. Khaitan: Would not that affect the fixing of the price in up-country?

Mr. McDougall: I do not see that it would. You would average that out.

Mr. Khaitan: We proceed on the actuarial method as is done in the case of life insurance.

Mr. McDougall: Yes. We have established wool growers' associations in England where we store practically for the whole year. While discussing the scheme with one of the biggest manufacturers in Britain, I asked him if he was prepared to support an organisation that would enable him to receive his various grades of wool direct from the store. He said "Yes, I would heartily support such a scheme. It is not really in our interests now-a-days to speculate in wool crops. It is better for us to know exactly what the price is and to get our requirements month by month as we need them." If you eliminate speculation, we know exactly how we can quote, whereas at the present moment every manufacturer in the world is handicapped as he does not know at what price he is going to buy.

Mr. Khaitan: I think I have understood your scheme sufficiently, but there is just one passage in our paper on which I should like to ask a question. You say:

> "After the raw material is in store it is a matter of ordinary routine to supply, by whatever channels are decided on, the requirements of manufacturers throughout the world. Existing storage capacity shall be made use of. It may be found necessary to erect extra accommodation for the handling of surplus jute. Manufacturers will have

nothing to gain by refusing to take their year's supply, to the limit of their storage capacity, whenever the material can be despatched to them."

The manufacturers have got to make arrangements for money and have to pay for the jute when they take delivery. It might suit some manufacturers to pay for a year ahead, it may not suit others to do so. How does your last sentence come in then?

Mr. McDougall: The manufacturer buying his stock at present in a speculative market goes to the bank and says 'I want £10,000 to purchase a certain quantity of jute.' The banker naturally says 'what about the price, how is the market going to go?' The manufacturer says that it is a matter of speculation and it is impossible for him to say. The banker is not sure as to the prices, he is taking a speculative risk and he is not fond of it, whereas in this case he knows that once the stuff is in the manufacturer's depot he has got a lien on the goods.

Mr. Khaitan: But why should the manufacturer be under the obligation of the bank? He knows he can get his jute at the same rate throughout the year.

Chairman: Apart from that, under the existing arrangement the banker does not concern himself with the speculative nature of the price. Both Messrs. Buckley and Lamond will tell you that they grant loans to the manufacturer on adequate security.

Mr. Buckley: We grant loans with a satisfactory margin of 20 or 25 per cent.

Mr. McDougall: 25 per cent. is a pretty considerable margin and in any case you have the assets of the mill to fall back on.

Mr. Buckley: We take the stocks only.

Chairman: They grant the advance on existing stocks *plus* 25 per cent. margin, not on prospective stocks, and therefore they are not concerned with any speculative rise or fall in prices. That was the point I was trying to make out. If your scheme comes into force, the manufacturer will not keep any stocks.

Mr. Lamond: I take it you would bring that into consideration in fixing a rate for the manufacturer.

Mr. McDougall: I would work it out, as Mr. Khaitan has said, on an actuarial basis. I see no reason why it should not be done, it is merely a business arrangement.

Mr. Ramdas Pantulu: The producers of jute, like other producers in this country, require some finance for the production itself and they generally borrow from moneylenders in the locality. The Bengal Committee have drawn attention to the fact that these people cannot really grow jute without some kind of financial assistance. I take it that your scheme makes no provision for advancing money to the growers for production.

Mr. McDougall: No, but at the same time it is not inconceivable that with a fixed price for the jute it would make the position very much easier for credit societies to step in and advance.

Mr. Ramdas Pantulu: I am only asking whether your scheme has made any provision in this respect.

Mr. McDougall: No, but there is no reason why it should not become part of the scheme or part of a co-operative movement.

Mr. Ramdas Pantulu: How the indebtedness of the agriculturist is a serious stumbling block in the way of his joining a marketing organisation has been pointedly described by the Bengal Provincial Committee. They say that he is not an independent agent and he may have to speculate for the sale of his produce to the man who advances the money. Foreign export houses are doing something to the agriculturist by offering money to him and though they are taking the forward contracts they advance at low rates of interest and their entering into competition for the produce of jute has also resulted in some increase in the value of production. There is no reason to say they are not correct. People who advance money play a great part in the production. Of course your idea of co-operative societies taking a hand in the matter is an ideal one, if it comes into operation some difficulty would be overcome. But as it is only 7 per cent. of the population are in the co-operative movement; the other 93 per cent. are still under moneylenders and so long as production cannot be carried on without the help of an advance, somebody must make that advance. Until this is done, the producers' associations cannot function, nor can the jute growers enjoy freedom to part with the produce to the corporation. Have you got any suggestions to make in this matter? It is a matter very prominently put forward by the Bengal Provincial Committee.

Mr. McDougall: None, excepting that steps should be taken immediately to start co-operative credit societies in these districts.

Mr. Ramdas Pantulu: And remove the influence of moneylenders over the people?

Mr. McDougall: Yes.

Mr. Ramdas Pantulu: You say: "the association shall limit or increase the output of each member *pro rata* according to the requirements of the corporation." Does the corporation pay both for export to the foreign countries as well as for sale to the manufacturers?

Mr. McDougall: Yes.

Mr. Ramdas Pantulu: Therefore the words 'also for foreign markets' should be added to the above sentence.

Mr. McDougall: I am prepared to make the addition.

Mr. Ramdas Pantulu: As I understand the proportion, out of 85 lakhs of bales, 50 are consumed by the manufacturing agents and 35 are exported. So you expect the corporation to buy the whole lot.

Mr. McDougall: Yes.

Mr. Ramdas Pantulu: Do you contemplate any surplus in the hands of the producers?

Mr. McDougall: No.

Mr. Ramdas Pantulu: You want the Corporation to take the whole and keep the surplus?

Mr. McDougall: Yes.

Mr. Ramdas Pantulu: And you think the commercial banks will continue to keep their advances with this Corporation. I think the banks usually advance only for short terms, say 3 to 6 months.

Mr. Buckley: Usually for the season.

Mr. Ramdas Pantulu: Do you think there will be no financial difficulty for providing all the money for the surplus?

Mr. McDougall: I do not anticipate any difficulty at all.

Mr. Ramdas Pantulu: And now about the payments to the producers for their jute. May I know how and when they will be paid?

Mr. McDougall: This is again a matter for expert advisers to decide after a study of the conditions. I have suggested that there should be three collecting periods. It may be more. Whenever the first consignment is ready and delivered it will be paid for rightaway.

Mr. Ramdas Pantulu: I want to know the approximate period.

Mr. McDougall: There will not be any delay at all.

Chairman: According to your ideas there will not be a delay of more than a week on the outside.

Mr. McDougall: That is so.

Chairman: Your original idea was that payment would be made after the jute has been stored in the Central Depot. You now seem to have no objection for payments to be made from local depots when there are graders there.

Mr. McDougall: That is so.

Mr. Ramdas Pantulu: You want this Corporation for all the three jute growing provinces of Assam, Bengal and Bihar and Orissa.

Mr. McDougall: Yes.

Mr. Ramdas Pantulu: Would you advocate any statutory power for this body?

Mr. McDougall: It is absolutely necessary.

Mr. Ramdas Pantulu: For persuasion and propaganda statutory powers are necessary.

Mr. Ramdas Pantulu: Your enthusiasm for restrictions in the case of grading lies in the fact that India has got a practical monopoly for jute.

Mr. McDougall: That is entirely so. For the last 6 months our Government in England have been endeavouring to force on us with the consent of many farmers a system of compulsory marketing. I have been fighting this tooth and nail because I feel that it is not a sound proposition to advocate because the conditions are not suitable.

Dr. Hyder: Is it your idea that prices beyond a year will be uniform.

Mr. McDougall: Under normal world conditions I took forward to practically no variation at all.

Dr. Hyder: Over a period of years?

Mr. McDougall: At any rate four or five years.

Dr. Hyder: No variation from year to year?

Mr. McDougall: Practically no variation.

Dr. Hyder: I have got at heart the object for which you want the scheme. During the war States started control of production and found they could not stop short of it. If they controlled, for instance, wheat or cotton or timber or munitions or bread they had to go at once all along the line, and it came to this they had to ration the consumer in the last resort. I take it that the Jute Control Corporation would be compelled not only to control the area under jute, but also to advance from that position and extend the control to manufacture. It might say that it ought to get control of the sale not only of jute but of jute products as well.

Mr. McDougall: I cannot visualise that.

Dr. Hyder: You think your Corporation will secure its object of a uniform price over a period of years. I do not wish to enter into a lengthy economic argument: I only wish to point out the lesson of the War, when we had a similar state of affairs:—the control was pushed forward until it came right up to the consumer. If that is the lesson of the War I put it to you that your Corporation will have to embark upon a very serious task.

Mr. McDougall: I differ from you. During the war it was a question of practically famine conditions everywhere. Inflation became greater and greater—it did not come afterwards, it advanced right through the war—and owing to wastage of material and an apparently increased prosperity in the world, the demand was far greater than the supply. If the various forms of control had not gone the whole hog the consumer and the manufacturer would have suffered very greatly. We in England had not a sufficient supply of meat or other basic foodstuffs to meet the demand, and in order to ensure reasonable prices and supply we had to go the whole hog, we had to control right up practically to the consumer's door. But these conditions will not arise under normal economic conditions. If you take the analogy of German cartels, they only supply the quantity which the world requires—manufacturers are certainly not going to manufacture what the world does not want.

Dr. Hyder: Consider this. The activities of your Jute Corporation will extend right up to the stage of controlling jute products. I will take that point later. I put it to you that the Jute Corporation has on it all interests, you have elements of conflict, there will be the impression that the price secured by the Jute Corporation for raw jute is not the price which represents a fair proportion of the price paid by the final consumer.

Mr. McDougall: We must assume that the Director of Jute Corporation will be reasonable and intelligent people.

Dr. Hyder: You say that the Jute Corporation consists of reasonable men. This is a Corporation controlled on the one side by consumers and on the other by producers. The former will say, 'You shall not charge the consumer a price which is above his sale price,' and the latter will say, 'You shall not secure a price which is below the cost of production of the produce.' Between these two limits—the supply price and the demand price—it is a case of one monopoly *versus* another monopoly,

and at what point the particular price for the year will settle itself will resolve into a tussle: it is a question of bargaining strength of producers and consumers: there is no question of economics left there.

Mr. McDougall: I say that mankind, in my opinion, has now reached such a stage when we can with every prospect of success look forward to a board being sufficiently intelligent to hold the balance equal. We have many examples of it throughout the world at present. Meat trusts have controlled the price of meat—I cannot tell you for how many years. I do not think it is on the whole to the disadvantage of the producer. On the contrary even within the last two years meat is one of the commodities that has not fluctuated as other produce has. The control of meat is in the hands of two parties who are responsible, for all practical purposes, for the price of meat throughout the world.

Dr. Hyder: I am concerned not only with the organisation, but also with the stability of price, and the doubt in my mind grows on general theoretical grounds, that the price will be fixed not for a period of years, but will vary from year to year. It will be determined by the strength of the two parties, and this operation will continue from year to year.

Mr. McDougall: I am not a Master of the theory of economics. I know a little about practical economics, much less than I should like.

Dr. Hyder: We have got a monopoly throughout. We have not got a monopoly for the producing units.

Mr. McDougall: If you take my advice, you will leave the competition to the manufacturers. It will not affect the jute scheme at all any more than intense competition that goes on from day to day amongst the individual units of the American meat trust affects the trust. These men between themselves fight a very hard battle. But there is no fight so far as outside is concerned.

Dr. Hyder: I am concerned chiefly with the interests of the producer in India—the small man. My position is this. In the case you mentioned there is one monopoly, but we have within this board two warring factions, and the particular point where the price will settle itself will depend upon the bargaining strength of either, and it is perhaps possible that the consumers having a longer purse will push the producers backwards.

Mr. McDougall: If you are frightened that the Directorate of this Corporation are not a suitable body to fix the price what about leaving the fixing of the price in the hands of a board of arbitrators the head of which would be a high Judicial officer. I should prefer to leave the matter in the hands of the Corporation on which are represented the various interests.

Dr. Hyder: I am forcibly reminded of a Judge of the High Court in England who was appointed to settle a dispute about wages between masters and workmen. He said—what principle of law or economics is involved I do not know. Here is one party of organised people against another party of organised people. I do not know how to settle the terms. On what shall I proceed.

Mr. McDougall: That is a question of commonsense.

Dr. Hyder: That is so; but you know, when it involves money, those gentlemen may perhaps leave commonsense.

Mr. McDougall: I think men are more reasonable under such conditions than you assume.

Mr. Devadhar: I should like to know whether in the course of your tour in Bengal you had come across any expression of opinion on the part of the cultivators to have some such organisation in their own interests.

Mr. McDougall: Unfortunately I have not. The only cultivators I met in Bengal were those on Sir D. Hamilton's estate in the Sunderbans.

Mr. Devadhar: When you had discussions with the big merchants, did you ascertain from them whether such a demand was ever put forth by the cultivators or their representatives?

Mr. McDougall: I read a considerable amount of literature—one pamphlet by Mr. Sarker. I had no opportunity unfortunately of discussing the scheme with any one. As a matter of fact when I thought of it first I was rather scared at the very idea: I hesitated to speak to anybody. The only manufacturer to whom I made a reference in connection with it was Sir Archy Birkmyre; I asked him no questions with regard to jute control. The only question I asked him was what effect would a difference of three to four rupees per maund have on the output, and his reply was quite clear practically none at all.

Mr. Devadhar: (Last 3 sentences but one of the penultimate paragraph on page 12) That is the estimate you make of the profit to merchants. What do you think will be the reception of this scheme by the cultivators who produce the jute.

Mr. McDougall: I think the cultivators will be very glad to accept it. If you can assure the cultivator a stated price I am not prepared to believe for one moment that the difficulties will be great in convincing the cultivator that it is to his benefit. He knows exactly what he is going to get.

Mr. Devadhar: You mention that the benefit of such limitation of control would be so many millions to merchants: will the cultivators have any share of it?

Mr. McDougall: They are going to have practically the whole of it.

Mr. Devadhar: By merchants do you mean cultivators or middlemen.

Mr. McDougall: The only profit that will come to the merchants is the commission. He will receive no profit on speculation at all.

Mr. Devadhar: Let me understand you. Take Rs. 4 as the fixed price.

Mr. Khaitan: Mr. McDougall is here talking only of the existing stocks to be taken over by the Corporation in the first year. He is not talking of a permanent state of affairs.

Mr. Devadhar: If that relates to the first year the benefit which you express in terms of millions to merchants will it be shared by the cultivator?

Mr. McDougall: It is conceivable to work this—please don't imagine that this is a fixed scheme at all, it is just an outline thrown out to you for your consideration. If it was possible to work this scheme as I have outlined then the corporation would start right away with sufficient finances in hand to finance them. The cultivator would receive the

benefit of that in after years as the cost of working would be so much less.

Mr. Devadhar: You propose that the capital should be in the hands of Provincial Governments.

Mr. McDougall: That is very much on the lines of the great public concerns in Germany and in other countries. I think the share capital should be in the hands of the Government. That also is a matter for consideration.

Mr. Devadhar: You have proposed a certain constitution for the Board and there are several interests that are represented.

Mr. McDougall: I think you will remember that Dr. Jeidels gave you a very clear description of what he would call public companies working in Germany and of the proposals he would make with regard to such companies that were public utility concerns, that the share capital might well be held in the hands of the Government.

Mr. Devadhar: But he also told us that the general principle should be that of self-help. Would that be a form of self-help?

Mr. McDougall: Undoubtedly. Ultimately, if it is in your opinion a better method, then I should see no harm in the cultivators if they can afford it through their associations taking up the share capital, to that being done.

Mr. Devadhar: So you would not mind keeping it open for the people to subscribe towards the share capital?

Mr. McDougall: That is a matter which will require very great consideration. Personally being a cultivator and my whole desire being in the interest of the farmer, I should say as these associations can afford to take up share capital that it would not be a bad idea. How that would work in practice I do not know. I can see no harm in it but there might be snags.

Mr. Khaitan: I suppose your scheme involves the idea that it is not to be run for profit.

Mr. McDougall: Not for profit at all.

Mr. Khaitan: And in order to do it properly it may be necessary for the corporation, through the Government, to levy a cess or duty to meet its working expenses and things of that kind? In view of that I think it is your idea that the best thing would be for the Government to find the capital and realise interest out of the transaction and levy a cess for the purpose of the benefit of the co-operators themselves.

Mr. Devadhar: How would it be brought within the co-operative scheme? How would it bear the standard of being a co-operative organisation?

Mr. McDougall: The corporation itself will not be co-operative. As a matter of fact if you look forward to its being a co-operative organisation it is impossible. It is far too big. There are too many interests involved. It is not only a question of co-operators, it is a question of the whole trade.

Mr. Devadhar: Then these co-operative societies should serve as feeders and collectors?

Mr. McDougall: That is so. They at their end occupy the same place as the manufacturer at the other end. The producer at one end of the rope and the manufacturer at the other. The strands of that rope consist of the trade.

Mr. Devadhar: So to a certain extent it will be co-operative? And beyond that it will be purely industrial or commercial?

Mr. McDougall: That is so or public utility.

Mr. Devadhar: On page 10 in the scheme which you have outlined under 7 you say Directors of Agriculture should represent the cultivator. And in the third paragraph: Producers should be formed into local associations, which shall be co-operative societies and subject to the rules and regulations of such. Why not give these associations direct representation instead of through the Director of Agriculture?

Chairman: That has been discussed already, and there was no objection.

Ch. Mukhtar Singh: Page 10, there is a Note: "The interest of the producer will be fully safeguarded by the Government holding the entire capital of the Corporation and having the power to dissolve the Corporation in the event of monopoly powers being used adversely." It seems to me that you presume that the Government here is always safeguarding the interests of the cultivator, but unfortunately they do not.

Mr. McDougall: The Government has to safeguard the interests of the community.

Ch. Mukhtar Singh: We feel that the Government will only safeguard the interest of the foreign interest, especially in jute. I will give you a very recent instance. In the U. P. they have just started a hydro-electric scheme and the license has been given to a European firm. The cultivator will have to pay one anna for the unit while the licensee will get it at 7 pies, which means a profit of 41 per cent. without risking even a pie in the whole scheme and not even guaranteeing the sale of a certain specified amount of energy. I am sure, though the whole thing is started by the Government it will fail because at that rate it will not be possible for the cultivator to purchase the current at that rate. When we see such glaring instances of the Government looking at the interests of a foreign firm rather than that of the people of the country,

Chairman: Where has this happened?

Ch. Mukhtar Singh: It has happened in the U. P.

Sir Purshotamdas Thakurdas: To whom do they have to pay?

Ch. Mukhtar Singh: To the Government. Government generates the electricity. It is like this. On the whole of the Ganges canal at different falls the Government have put in their turbines and have electricity generated. The license has been given to a firm—I am speaking of the rural area only. There are two sides to that scheme, one is the urban and the other the rural development. The Government has given the license to Messrs. Martin & Co. They will collect the money from the cultivators and give it to the Government.

Sir Purshottamdas Thakurdas: That is this diffierence between 7 pies and one anna which you call a profit of 41 per cent.? Do you know whether anything has been done beyond putting up that turbine?

Ch. Mukhtar Singh: No. The turbine is put in by the Government and lines both high tension and low tension will be installed by the Government and the licensees will not spend a pie in the venture.

Sir Purshottamdas Thakurdas: Do Martins do it privately or have they floated a private limited company?

Ch. Mukhtar Singh: They floated a limited concern. They advertised for 3 or 4 days in the papers about the shares of this concern and forthwith the whole thing was underwritten by Messrs. Martin & Co. The name of that concern is The Upper Jumna Electric Supply Company. Here unfortunately you cannot identify the people with the Government. That is our main difficulty and this is why I am very much in favour of this scheme but I feel that there ought to be some method by which the interest of the cultivator ought to be safeguarded against these people who practically control the Government here.

Mr. McDougall: In the first place you are going to have these producers organised through the sales associations in a way that they were never organised before. It is inconceivable to me, knowing only Western conditions, that these organised producers would not have sufficient strength to safeguard their interests in a legitimate way.

Ch. Mukhtar Singh: I gave you the other instance of Bihar in the case of the sugar grower.

Chairman: But the sugar grower in Bihar at the present moment is not sufficiently organised. Would not that be your point, Mr. McDougall.

Mr. McDougall: Certainly.

Chairman: The sense of the scheme is to make the jute producer more organised and when he is so organised he will be able to protect his interests. Whether it will be a practical proposition in the present state of his education is another matter, but Mr. McDougall realises all that, don't you?

Mr. McDougall: Yes.

Chairman: In fact in his other paper he has pointed out other difficulties in Indian conditions in the way of co-operation. But his point is that if you work in this direction this will be another avenue to foster co-operation among these jute growers. Undoubtedly there are various other difficulties, but we do not want to stop our work in the direction of co-operation because of difficulties.

Ch. Mukhtar Singh: I want to understand in what way the producer would be able to organise by this method and how he will be able to really stand against these interests. If I can understand that it will have my whole-hearted support.

Mr. McDougall: For the first time in his life every producer of jute in this country would be a member of a selling organisation. Assume you have about 1,000 of these selling organisations with a Chairman over each. They would represent the united strength of jute growers. The

producers will be in an infinitely stronger position than they ever were before. It will be comparatively simple for them to elect representatives on a Central Board who would discuss their problems and bring their problems before the legislature.

Ch. Mukhtar Singh: We are told by the Bengal Provincial Committee's Report that generally the producer does not sell his jute in the market. The faria goes to his place and collects his crop and then brings it to the association. Thus in your scheme the cultivator will get no advantage. This system is in vogue to-day. How will you then introduce the system by which the producer will be better organised? Will you have a clause that only the producer will be able to sell?

Mr. McDougall: But that is the case.

Ch. Mukhtar Singh: Will you make it a penal clause by which a faria will be prohibited from collecting and selling?

Mr. McDougall: Yes.

Chairman: I did not understand that that was one of the terms of your scheme, but if it is I don't see how it is going to work. From what you have said you contemplate in connection with your scheme that it would be made penal or illegal with slight restrictions that anybody other than the cultivator should bring the jute into these local depots?

Mr. McDougall: There may be local conditions where the cultivator is mostly a servant of somebody else. I am not prepared to say very much about that.

Chairman: It is not only that. You see local conditions make it less troublesome for the producer to hand over his crops to a faria instead of having to take it by whatever means of transport he can get to the nearest local depot. But I look upon it in this way, that as soon as the producer finds that the faria is giving him a price for his jute which compares very unfavourably with the price he would get at the local depot he would combine and collect the necessary means for transport and take his produce to the local depot himself, that is the matter would settle itself through economic causes.

Mr. McDougall: If you think that owing to local conditions down in the mofussil it is not possible for the farmer to bring his stuff in and that no harm would arise at all.

Ch. Mukhtar Singh: But harm would arise.

Mr. McDougall: Well, if harm would arise then the cultivator must take the stuff to his selling centre.

Chairman: I don't see how that is going to be worked. The cultivator may be too poor for that.

Mr. McDougall: But these villages are very close together.

Chairman: They may be, but still the closeness in a part like Eastern Bengal with the river cutting across it will present difficulties.

Mr. McDougall: I can hardly conceive it. Your selling centres appear to me to be very close together. Mr. George Morgan, the only man with whom I have had the privilege and opportunity of discussing the matter

as a practical jute broker clearly indicated to me that there would be no trouble at all on the part of the cultivator taking his jute to the centre. That may or may not be the case, but it is on those lines that this proposal has been drawn up.

Chairman: Mr. Roy, would it be possible for every producer to take his jute to the centre instead of giving it to the faria?

Mr. Roy: They can transport it to the local market. But if the faria gives a proper price they prefer to give it to him.

Mr. McDougall: I can hardly believe that when the position is investigated you will find that the cultivator will have any real difficulty in taking it to his local depot.

Chairman: I am trying to find out the implication of the legal restrictions. Some one brings the stuff to the local depot and the local depot has to investigate whether this man is the producer or faria.

Mr. McDougall: Each cultivator is a member of that association.

Chairman: The faria may be a cultivator and he may have bought the stuff from another producer.

Mr. McDougall: That may be but remember each member of these collective villages is a member of the selling association. Each village is represented by the head man of the village, let us say or by the elected representative. This man must know the local conditions. I cannot assume for a moment that the local cultivator is so unbusinesslike as not to know that if he takes that stuff into the local depot he is going to get a certain price. I cannot assume that he would allow someone else to make a profit.

Ch. Mukhtar Singh: It is not a question of unbusinesslike. I quite see that the cultivator is very intelligent, he knows his profit and can calculate it, but the only difficulty is that he is perhaps indebted to the man to whom he has to sell and on account of that unfortunate condition he will have to sell to the faria.

Mr. McDougall: Not necessarily. The faria knows that this man has a crop. If the faria for instance is a money-lender and has money out with that producer it is quite true that the faria does not get his crop but it is true that the producer gets his money and then if he is indebted he pays the faria his money.

Chairman: He may or may not. That is the whole trouble.

Mr. McDougall: What about the ordinary money-lending trade?

Chairman: According to what we have been told if there is no security a considerable amount of money is lost in that way in these bad debts and here the faria had actually given a loan on the security of the crops. I take it that is your proposition? Then he would not let the producer take away the crops because the crop is more or less mortgaged to him and therefore he would be perfectly within his rights in not allowing the producer to take away that crop. If on top of that it is part of your scheme that if the faria took the crop himself to the local society that would be criminal or illegal on his part, I cannot reconcile myself to that position.

Mr. McDougall: Is there to be any serious harm if under such conditions as that you allow the crop to the local depot?

Ch. Mukhtar Singh: My difficulty is this that certain jute societies have started in this way and they could not work simply because the producer would not bring his produce to the local centre and the recommendation of the Bengal Enquiry Committee was that unless you advance loans to these people from the co-operative society there is no possibility of these societies being successful. You are just substituting them with the sale societies. How that point would be overcome I do not know.

Chairman: There is this difference. Under existing conditions that faria would have taken his jute to anybody. Under this system he can dispose of his jute only through the corporation and therefore through its local depots, or rather through the local depots working in liaison with the central depot of the corporation. Therefore the faria must take that produce to the local depot and there will be a rate fixed for the amount to be paid to him for that produce. That is part of the scheme. The cultivator will know what the faria is to get. That is if the cultivator has developed co-operative organisations, if not he will be precisely in the same position as he is now.

Mr. Khaitan: I fear that perhaps a little bit too much has been made by us of this poor man, the faria. According to my information the system has been very much reduced during the last 10 years. I do not know whether the business of farias has been increased on account of the low price of jute. If we otherwise like this scheme put forward by Mr. McDougall with the alterations which may be advisable or necessary owing to local circumstances of Bengal then I believe that the existence of the farias should not be an insuperable difficulty.

Mr. McDougall: The essence of the scheme put forward by me lies in the fact that the cultivator will realise a better price for his jute under this scheme than he now can under the present system of trading. Whoever advances money to the cultivator for the purpose of growing crops during the season or at any other time, he has got a lien over the crop His trade will not be killed by this scheme, but, the cultivator gets more money by the sale of his produce, and the balance that will be available after meeting the claim of the *faria* or the money-lender will go to the actual producer of jute, so that he will not be placed in a worse position, but will be in a better position under this scheme than he is to-day under the present system of trading. Of course there may be other difficulties.

Chairman: In regard to this particular matter Ch. Mukhtar Singh says that whatever benefit may accrue from the scheme will in cases where the producer must sell to the *faria* accrue to the latter and not to the producer.

Ch. Mukhtar Singh: I may differ from Mr. Khaitan who thinks that the *faria* only wants his money back because we find he wants to be a jute collector and get advantage of that business.

Mr. Khaitan: I was just going to deal with that problem. The *faria* either actually takes the crop at a fixed rate or wants his money back. I have already explained that he will get his money back, but so far as his getting the crop is concerned, if some of the cultivators still entered into an agreement of that nature these cultivators would continue to be in the same position in which they are to-day: the other cultivators will benefit. But I doubt very much, if a scheme of this kind is successfully brought

into existence, these cultivators will be such fools as to enter into similar agreements in future, and what they will do will be they will agree to pay a certain rate of interest on the loan taken, and benefits of the scheme will go to them.

Chairman: He will ultimately gain the benefit with the growth of education and co-operation.

Mr. McDougall: As a matter of fact your interpretation of the position of the *faria* is exactly the same as Mr. George Morgan's. He says, 'Don't you worry about the producer, he can look after himself better than people imagine provided he gets a price.'

Ch. Mukhtar Singh: My impression is that by the creation of co-operative sale societies there is a presumption that he gets a better price.

Mr. Khaitan: Otherwise there was no necessity for starting co-operative societies. I may just mention the reason why co-operative sales societies fail to achieve their object is that they do not have enough money at their disposal to pay to the cultivator. As a result of that what happened was they started operations in the same manner as merchants were doing, namely, selling forward to the dealers and jute mills in Calcutta and buying jute from the cultivator at the prevailing market rate.

Chairman: What you are saying is perfectly true of the Bengal societies. What Ch. Mukhtar Singh refers to is the experience of a co-operative sales society mentioned in the Assam report. He is proceeding on different grounds. This is the passage: "The business was not financially a success for various reasons, such as insufficient capital, lack of business experience in the trade on the part of the directors and the employees inability to grant advances to cultivators to extricate themselves from the grip of the Marwaris, and finally disloyalty on the part of the members. The Committee thinks that success depends upon the cultivators being enabled to clear off the advances they owe to Marwaris, and recommend that Government should gather information . . . " That is what Mr. Mukhtar Singh has in view. I think what Mr. Khaitan said is perfectly correct, *i.e.*, in the end it is the cultivator who is bound to benefit, not the *faria*, though it is also true that at the earlier stage the *faria* in certain cases will reap the benefit.

Ch. Mukhtar Singh: My information is gathered simply from provincial recommendations.

Mr. McDougall: Cultivators are going to get a good price, and co-operation will be enabled to make good progress, under a control of this kind.

Ch. Mukhtar Singh: Will the same rate be offered for raw jute throughout, or will there be different rates.

Mr. McDougall: Mr. Khaitan has explained to you already that there are districts where the quality of jute is such that it must secure a higher price.

Ch. Mukhtar Singh: Quality will come under grading. Will there be any difference in accordance with the distances of places where jute is produced and sold.

Mr. McDougall: Exactly the same position arose during the war in England. It is for you to consider whether you are going to have a flat rate for jute or a rate according to the distance the jute is carried. In Great Britain we had a flat rate.

Mr. Khaitan: I do not think you can have a flat rate.

Mr. McDougall: In my country the carriage rate for cattle was exactly the same whether it was within 12 miles of a railway station or 100 miles from it. We worked on the railway returns of the previous year the average cost and on that based the flat rate the farmer had to pay. It could have been as easily worked the other way. One thing militates against a flat rate, and it is this: the possibility that the land which is near Calcutta where carriage rate is very low will be worth more than land at a distance of 100 miles.

Mr. Khaitan: That cannot be helped.

Ch. Mukhtar Singh: Suppose there is a flat rate. The Corporation may not like the idea of purchasing jute from a distance.

Mr. McDougall: They have got to take it. The flat rate scheme may not work for jute. It may have to be worked according to cost.

Ch. Mukhtar Singh: Whatever the produce it will have to be purchased at the rate announced.

Chairman: Under the modifications agreed to by Mr. McDougall the licensed bepari has ceased to exist. Payment will have to be made at the various local depots, and if the scheme is to be pursued, the method of payment will be something like this. The corporation will have to fix an issue sale price for jute issued from its various depots and it will have to fix variable rates for purchase at the various local depots. That is how it would work.

Mr. McDougall: That is so.

Ch. Mukhtar Singh: Will it not mean that the starting of jute factories in other provinces will be difficult?

Mr. McDougall: Not at all because the Corporation will be glad to supply them.

Chairman: They will have to bear transport charges.

Mr. McDougall: These factories will be supplied with the quality of jute they want from the nearest depot.

Ch. Mukhtar Singh: My point was this. It is Bihar, Assam and Bengal, that are producing jute. It is only recently that U. P. has started producing it. Suppose there is sufficient quality then it is just likely that mills may be started.

Chairman: The corporation will extend its jurisdiction. In the end it will be an all-India thing.

Ch. Mukhtar Singh: The whole thing will be calculated on different basis. One is that a certain quantity of jute will be consumed locally and the balance will be exported. It may be that there is a better price for jute in foreign markets. What will then happen?

Mr. McDougall: The price of jute will be worked out at ports or at mills.

Ch. Mukhtar Singh: Suppose the price of raw jute is worked out at Rs. 10 a maund: it is both for export and for use in the country. But the export market is not in our hands, we cannot control it: in certain years they may not take anything at all, in other years if there is more profit they may offer a better price.

Mr. McDougall: The price of jute is fixed. There should be no variation.

Ch. Mukhtar Singh: You fix the price of jute, you at the same time fix the quantity. What I mean to say is this: at the rate you have fixed it is just possible you may not be able to sell in the export market.

Mr. McDougall: But they will let you know their requirements in advance.

Ch. Mukhtar Singh: At the same time it is possible, if the export market does not take it, there will be a surplus here, and in that case the corporation will suffer. On the other hand, if there is more demand outside, Indian mills will suffer; will you not make it an essential part of the scheme that the first and foremost duty of this corporation will be to supply Indian market, and then if there be a surplus, the outside markets.

Mr. McDougall: There should be enough jute for every one.

Chairman: It is precisely Dr. Hyder's point.

Mr. McDougall: You are setting up a co-operation on which are represented foreign mills as well as others, and you are going to give them whatever jute they require at the stated price.

Ch. Mukhtar Singh: I should feel, if we agree to this principle, it is a dangerous principle from my point of view, and I can give you an analogy. There is difference in the customs duties for wheat and wheat flour, oil-seeds and oils. The basic principle is this. Other countries feel that their industries should as far as possible be supported. On the same principle we will sell outside if we cannot consume here.

Mr. McDougall: If you ara going to starve outsiders I can imagine that jute growers in this country will ultimately suffer. Is there any variation in cotton? Does the Indian manufacturer in this country get it at a less price than that for export.

Ch. Mukhtar Singh: There is no question of monopoly here.

Mr. Khaitan: You remember that there is an export duty of Rs. 4-10-0 per bale.

Ch. Mukhtar Singh: I am not speaking of that.

Chairman: It is really Dr. Hyder's point. The Corporation has got in its depots, say, a million maunds of jute. How is it going to distribute? Million maunds will be required by manufacturers in this country and millions for export abroad. The corporation may be compelled to ration these two bodies.

Mr. McDougall: That is, assuming there is not enough jute.

Mr. Khaitan: It has never happened.

Ch. Mukhtar Singh: Suppose we start with the idea that 2,000 acres will give us a lakh of bales: 80,000 will be required for internal consumption and 20,000 outside. There is a drought, and the production falls short of our expectation. There are only two methods: distribute in such a way that there will be no complaint against us, no matter if you should

starve your own mills; the second method is, provide your own mills and send the surplus outside. I should not like to starve our own mills of course if there is any surplus we will send it outside.

Mr. McDougall: I think it is after all a matter of detail, that can be very well gone into by whatever authority you may set up in the event of your accepting my proposal. But why assume a hypothetical case which has never occurred in the history of jute trade up till now? If owing to world conditions the demand for jute becomes very much greater than the existing supply of jute can provide, it is a question of increasing the price in order to get greater supplies. If you fix the price at Rs. 5 or Rs. 6 and the amount of jute produced at that price does not supply the market, then you can raise your price to Rs 10 a maund, and I am quite sure if you raise your price it will lead to greater profit.

Ch. Mukhtar Singh: My idea is this. The production of an organic substance depends upon so many circumstances. We are making a scheme for curtailing the production. We start with the assumption that we can produce much more than the demand. My difficulty is that at a time when you expect a certain return and it does not materialise, it is not within your power to increase it for that year. I am not speaking of the next year.

Mr. McDougall: You are carrying surplus stocks.

Ch. Mukhtar Singh: Would it suffice?

Mr. McDougall: I should think it would. Except in war conditions have you ever heard of a famine in jute?

Mr. Khaitan: Not even during the war.

Ch. Mukhtar Singh: I could have shown that there has been a fluctuation every year, but I have no figures just now. Even in that case it depends upon natural adjustment. Here it is artificial adjustment.

Chairman: Mr. McDougall has answered it by saying that it will have to be considered in detail. I think we may leave it at that.

Ch. Mukhtar Singh: There is another point. By this scheme you decide beforehand that this must be the price and it means you will have to take the interests of the manufacturer into consideration. But it is just possible that there might be a fall in the price of manufactured goods, and in that case it may not be possible for the mills to take at that price, and you will either have to quote cheaper or let the corporation suffer. If it is bound to buy it will have to work at a loss.

Mr. McDougall: I do not think so. As far as I can see I do not think that such a case will arise at all. The manufacturer knows what he is buying his jute at. It may be there may be less production and less jute might be required: the farmer will produce less jute in the next year.

Ch. Mukhtar Singh: He will carry over stocks to another year.

Mr. McDougall: Not the farmer.

Ch. Mukhtar Singh: In Sugar Acquisition Act 15 of Queensland, Government purchase sugar after it has been milled at a fixed price to cover the cost of production. The price is fixed by a sugar board consisting of a Government chairman, 2 growers' delegates and one millers' delegate. That is the proportion kept under the Sugar Acquisition Act. Should not the same method be adopted here? At least the grower must have not less than 50 per cent. representation.

Chairman: Mr. McDougall has already answered that in answer to Mr. Ramdas Pantulu. What he has stated is purely tentative. He agrees that there should be representation of the producer. What he considers to be adequate representation for the producer is to be examined by people who are going to examine the details of the scheme.

Mr. McDougall: That is so. I should like to remind Mr. Mukhtar Singh that this is a business corporation. I have the most profound respect for the cultivator and his mentality. But I would ask you to remember this one point. This is a business corporation. Now the cultivator is not a businessman. If you are going to load the board with cultivators or make half your board cultivators, then I am afraid you are not going to get the same business efficiency. It may be that so far as fixing the price is concerned you have to get some other authority.

Mr. McDougall: You have to introduce some authority which will fix a price.

Mr. Ramdas Pantulu: The cultivator now gets less than the cost of production.

Chairman: Anyhow I am not sure we will be able to put up a scheme. Whoever works out this scheme will have to keep the balance even.

Mr. Roy: All the points have been more or less traversed but I will tell you as soon as the cultivator gets his jute ready he takes it to the nearest market and sells it and with the price obtained he buys his necessaries, and if he is in debt he pays his creditors. How are you going to fix the price? Now when he takes the jute to the market he gets competitive prices. If you fix the price he won't get the price he is now getting.

Mr. McDougall: The price would be raised.

Mr. Roy: But how do you fix the price?

Mr. McDougall: We have been discussing that the whole morning. I suggested the Corporation should fix the price in consultation with various interests. They will say to the manufacturer 'What is the highest possible price that jute will stand at this moment ?'' It is not inconceivable that they may not find that even now a price of say six rupees might be possible.

Mr. Roy: Is it not that the price is fixed on the demand and supply?

Mr. McDougall: Yes now, but not under control with a monopoly crop.

Chairman: It is monopoly now.

Mr. McDougall: It is only a monopoly so far as the production of jute is concerned.

Dr. Hyder: Mr. Roy is quite right that there is a demand. If there was not he could not come to an agreement.

Mr. Roy: I will tell you how it varies. Now the price is Rs. 4. Three years ago it went up to Rs. 20.

Mr. McDougall: One year it went up to Rs. 29.

Mr. Roy: That was an exceptional year. How are you going to fix it at the beginning?

Mr. McDougall: I don't think it is a difficult matter. You and Dr. Hyder think that the brain of man has not yet sufficiently developed to fix fair prices but I think it is a comparatively simple problem.

Mr. Roy: I am afraid in that case the cultivators will not get the price they are getting now.

Mr. McDougall: Quite an impossible supposition.

Chairman. Mr. McDougall's point is this—once you establish that Corporation, which for the purposes of the mills in India and for the foreign buyer, will be the only source of supply, that Corporation will be in a position to fix and stabilise prices. I admit there are difficulties which were pointed out by Dr. Hyder and Ch. Mukhtar Singh. Whether those difficulties can be surmounted or not is another question. That difficulty may arise in attempting to decide between the requirements of the Indan mills and the foreign buyer but apart from that you have in the Corporation the entire stock of jute in your hands and therefore you are in a position to fix the price. At the present moment under the present arrangements anybody can produce jute and sell it to a buyer. Therefore there is competition in both directions. The law of supply and demand applies more fully if the demand is large, then naturally the cultivator gets a larger price. If the demand is less he gets a low price. But in future all that will be controlled. Though how they will be able to maintain prices I cannot really see. I am inclined to think there is something in what Dr. Hyder and Ch. Mukhtar Singh say. We will have to discuss that. But if it is possible to attain that position that the Corporation which is the only source from which the mills in India and the outside buyer can get jute, then the Corporation fixes prices, and that is the issue price of jute. Then the Corporation fixes correspondingly the purchase price of jute at various centres and the cultivator gets that price.

Mr. Roy: Then the incentive of growing more or less jute according to the price he gets will go?

Chairman: Undoubtedly. There is no doubt on that point, Mr. McDougall, because it will be a regulated production.

Mr. McDougall: Yes.

Mr. Roy: Then about the mills, they buy the jute at a certain price and they will have to sell it according to the demand of the mills who are buyers?

Chairman: No, the buyers are to buy at a price which has to be fixed by the Corporation. Both the Indian and the foreign buyer have to buy at the issue price of jute. Having fixed that price the Corporation also fixes the purchase price of jute at various centres.

Mr. Roy: Then what about the manufacture of goods?

Mr. Khaitan: I believe Mr. Roy is referring to the prices of hessian. Their price would certainly be regulated by supply and demand but then they will bear some relation to the price which may be fixed for jute because the whole world will be able to get jute only at the price fixed by this Corporation and therefore the price of hessian will vary on account of the varying supply and demand.

Mr. Roy: But demand does not depend on the prices at which you buy jute, it depends on the demand for manufactured goods.

Mr. Khaitan: The price of the manufactured jute will depend on the supply and demand but it will still bear some relation to the price of the raw material.

Mr. Roy: It will bear some relation but not much.

Mr. Khaitan: It would bear much. Supposing there is a glut in the market of jute manufacturers, then the price would go down. It will also depend on other economic factors in the world.

Chairman: That matter has already been pursued from that particular aspect by Dr. Hyder and by Ch. Mukhtar Singh from another aspect supposing the crop of jute does not come up to the estimated quality. Mr. McDougall brushed aside Dr. Hyder's point, he called it theoretical but it was more practical. If we want to pursue the scheme, that is work out the details, we will have to try to devise means to get out of these difficulties.

Mr. Roy: Only recognised growers are allowed to cultivate jute. Will that not be hard on other cultivators?

Mr. McDougall: Why should it? They are not growing jute at the present moment. Are you going to hold up the prosperity of the cultivators who are at present producing that commodity for the doubtful few who may be tempted to do it if prices rise to a very paying level? It is a question of the benefit to the greater majority.

Mr. Roy: I understand sometimes they vary the crop to have greater yield. They do not grow the same crop on the same land every year.

Mr. McDougall: That does not affect the position at all.

Chairman: I think the point is this. Your Corporation in fixing the quantity of jute production I suppose will also have to fix the quantity of the various grades.

Mr. McDougall: Oh no. Leave that to supply and demand, to the natural conditions.

Ch. Mukhtar Singh: He must produce the very best so as to get the best price.

Mr. Khaitan: The Agricultural Department is trying to give better seed to the cultivators to get better jute. If you can improve the jute all round it will be very helpful to the world. Near Calcutta it is only the *desi* class of jute which is sold, and that quality may be improved.

Chairman: According to Mr. McDougall's ideas that would have to be stopped. He is going to restrict production.

Mr. Khaitan: The quantity of production is very different from continuing the growth of the bad quality of jute. The bad quality of jute is grown at the present moment for various reasons.

Chairman: But according to his scheme production is to be restricted and that being so the areas which are producing what you call the bad class of jute will be stopped from further production.

Ch. Mukhtar Singh: Not necessarily. That will be very hard. I was going to suggest that it will be best on this basis. Suppose there are 2,000 acres which may be grown under jute. Proportionately it will be curtailed. Otherwise it means that the cultivator who cannot produce the best quality of jute would be deprived of his livelihood.

Chairman: Then it would depend on the demand for the various grades.

Ch. Mukhtar Singh: When you give a better price for a better grade naturally the difficulty will be in growing the best crop.

Mr. Khaitan: The price will be fixed according to the qualities.

Chairman: But then who is going to use that low quality of jute?

Mr. Khaitan: People are using it in the mills for manufacturing gunny

Chairman: That is my point, the different classes will have to be specified.

Mr. Khaitan: I don't think that difficulty will come to very much. The Chairman is raising the question that when you control the production of jute you would have to control it to the extent that the various qualities that are at present being grown will have to be divided off into quantities that will be fixed. I don't think that difficulty would arise. In fact it would be very difficult for the quality of jute to be improved within the next 20 or 25 years. There are very many difficulties in the way and Sir Vijayaraghavacharya will be able to support me in that behalf.

Chairman: Supposing at the present moment the mills of India are producing X millions of gunnies and Y millions of hessian and for the X millions of gunnies A million tons of jute of a particular grade is required, and for the Y million hessian B million tons of a different grade of jute is required. In restricting your production you will have to try to keep to the A and B grades, otherwise your mills will be producing more hessian than there is a demand for in the market.

Mr. Khaitan: It is not that the better quality of jute cannot be used for the purposes of gunny bags. All that can be said is that because they get the lower quality of jute at cheaper rates they go in for the lower quality of jute. But in the interest of the cultivator it is highly desirable to improve the quality of the jute as far as possible.

Chairman: But it will force the price of the gunnies, and I don't know what the effect would be.

Mr. Khaitan: Let us hope for the best. If the cultivator can grow only the good quality of jute it will be to his benefit, there is not the slightest doubt about it.

Chairman. I think that answers your question Mr. Roy. Your question was, will there be a restriction on the production of the different grades of jute and Mr. Khaitan says that this is an unmaterial matter. That is if all the agriculturists produce the best grade of jute it would be in the best interest of the agriculturist and in so far as the market goes they will have to use the best grade of jute. It may increase the price, for example of the gunny, but even that he considers to be immaterial.

Mr. Roy: Is it not natural that people will like to have gunny at the lowest price possible? Even if they use the bad quality of jute.

Mr. Khaitan: We have considered the question mainly from the point of view of the agriculturist, how the benefit of the monopoly which India now enjoys in respect of jute can really be earned and acquired for the benefit of the agriculturist. The Government of India has a monopoly, still the disorganised position of the cultivator is such that they do not get the benefit of that monopoly. I think Mr. McDougall's scheme, as a result of which that can successfully be brought about, with such modifications as may be necessary in the existing circumstances, if it benefits the agriculturists, we ought to welcome it.

Mr. Roy: What is the reason that in places round about Calcutta they cannot grow better jute? Is it due to soil or want of sufficient water?

Mr. Khaitan: So far as my information goes it is the different kind of soil and the want of water which are the main factors, and the climate.

Mr. Ramdas Pantulu: There is a statement here in the Report of the Bengal Provincial Banking Enquiry Committee that the price of the highest grades is brought down by two methods. One of them is: 'Sometimes the prices are brought down by another means without altering the specifications. When the season for jute opens the mills or rather their purchasers start buying operations on certain agreed specifications as to the standards of the different grades, but after the season advances a little, purchases of the top grades are suspended by a concerted action, with the result that later in the season the quality of jute which could have been tendered according to the agreed specification against a higher grade has in fact to be tendered against lower grades, for, it could not be sold otherwise. Several witnesses have estimated the loss of the growers resulting from this variation of grade specifications as amounting to several crores of rupees".

Chairman: It seems to me that your central corporation will have to fix not only the total quality of jute which it is going to purchase, but also the total quantity for each grade.

Mr. McDougall: No, I would be very much surprised if that had to be done. I think Mr. Khaitan has made it quite clear that from the point of view of the trade itself it is not necessary.

Chairman: Therefore you will have to pay different prices for different grades?

Mr. McDougall: Oh yes, by all means.

Chairman: It would be all right from the agriculturists' point of view, whose case Mr. Khaitan was pleading at that stage. But your central depot has got jute of various grades and the buyers say they are not going to buy the top grades.

Mr. McDougall: But you see this variation in price will be eliminated. The grade price will be fixed in consultation with manufacturers at the actual value, grade for grade, which it is worth in the mill. Let us assume that you fix the 1st grade at Rs. 6 a maund, and according to the experience of the manufacturer the next grade is worth say Rs. 5-12-0 a maund. That is the price that he can economically manufacture the Rs. 5-12-0 as compared with the Rs. 6 one. So it really does not matter so much to him whether he is buying a thousand bales at Rs. 6 or a thousand at Rs. 5-12-0.

Chairman: Doesn't it? You said yourself that the manufacturer knows that for manufacturing a certain class of article he requires grade B and he cannot pay economically more than Rs. 5-12-0 for it. Now then there is no restriction on the production of the different grades and when the stocks are examined they find that the whole of it is graded, and that the cultivator cannot get the higher price they are all paying in grade A, therefore the depots are full of the Rs. 6 grade—I am giving an extreme case—and there is nothing of the Rs. 5-12-0 grade. What is going to happen to the buyer?

Mr. McDougall: Then the manufacturer will have to be rationed on his grade.

Chairman: In the end we shall have to end up by also having to ration the buyer.

Mr. McDougall: Rationing according to quantity is a different thing from rationing according to quality. I should very much prefer to ask Mr. Khaitan—he has practical experience of the trade—if a situation of that sort is likely to arise.

Mr. Khaitan: I do not think that kind of situation will at all arise. What happens is this. There is a demand for good jute, for example, from mills in Dundee which prepare finer qualities. Then there are mills in Germany which produce carpets and even wearing apparel from jute and they require the finer quality. Indian mills do not take good jute, they only make gunnies. There is a demand for all kinds of jute, and if we can reach a stage when only good quality will be grown, even the manufacturer will welcome it because he will be able to produce a better stuff. But I cannot see that God will give us such a time when only the better quality of jute will be grown. If it can be brought about it will be for the good of the country.

Chairman: That meets your difficulties.

Mr. Roy: You want to restrict the *faria* from buying jute from cultivators.

Chairman: That we have passed over. At one stage it was said that there should be legal restrictions against them. We have now modified these ideas.

Mr. Lamond: Imagine a situation like this. The corporation know the requirements of local mills. They have got an estimate of the requirements of export trade. They know the stock they will carry over for next year, and they decide what the requirements for the following year will be. The estimate of the area is based on the area required in normal circumstances to produce the amount of jute required for the following year. The jute is sown. There is a big drop in the demand from outside for jute products, and therefore the trade does not require the number of bales anticipated. On the other hand you have perfect conditions and you get a bumper crop. How are you going to deal with the situation?

Mr. McDougall: I see no reason why you should not take the whole crop and limit the production for the following year. As a matter of practice at the outside 30, 40 or 50 per cent. should be the normal carry over, and if owing to world fluctuation of demand and supply you find yourself with 20 per cent. more of carry over at the end of the period than you anticipated, the farmer will have to grow 20 per cent. less in the following year.

Mr. Lamond: Interest is being added up all the time.

Mr. McDougall: The interest on that 20 per cent. will not kill the corporation.

Mr. Lamond: Would you make the mill pay for that?

Mr. McDougall: It is not inconceivable that you might.

Mr. Lamond: Somebody has got to pay for it.

Mr. Devadhar: In the scheme that you are proposing is any legislation to be introduced for the purpose of getting uniform weights and measures?

Mr. McDougall: Yes.

Mr. Devadhar: On the lines of Berar Standard Cotton Act.

Mr. McDougall: I cannot tell you what it is. On the lines of similar institutions which have been started elsewhere.

Mr. Devadhar: All the interests will be safeguarded?

Mr. McDougall: That is so.

Mr. Khaitan: At the bottom of page 11, you mention that the cost of distribution is Rs. 2/8 per maund apart from speculation and profits. I do not know whether the figure is correct. It seems to me to be very high. Does it include the railway freight apart from insurance and everything?

Mr. McDougall: Yes, I think so.

Mr. Khaitan: During the season it almost invariably happens that the price of jute in Calcutta is lower than the price prevailing in the mofussal, so that it is not quite plain sailing for the middleman in the trade. At present he has to take a long view of the market if he is to live in the trade. He cannot be sure of earning his just commission at the present moment. Are you quite sure about this Rs. 2/8, or did you get it from somebody?

Mr. McDougall: In consultation with an officer of the Agricultural Department I fixed the price at Rs. 2/-. He travelled down with Dr. Friederich and myself to Sir D. Hamilton's place. It was at that time the idea of a corporation was floating in my mind. He had been in a jute merchant's office at one time. The next man whom I met who had any experience of your jute was Mr. George Morgan. I asked him whether he could tell me what the cost of distribution is on the average. He said 2/8. Dr. Hyder has just pointed out that the difference between the price paid by the jute mill or the exporter and that received by the cultivator is estimated at Rs. 2 or Rs. 2/8 per maund.

Mr. Khaitan: Did he say, as I have said, that it includes railway freight?

Mr. McDougall: Yes, it includes freight and insurance charges.

Mr. Khaitan: You mentioned the shipper: perhaps it includes baling charges too.

Mr. McDougall: No, I do not think it does.

Mr. Khaitan: Except baling charges it would include the packing of jute into *kucha* bales, cartage charges, port freight, railway freight, insurance, interest on the money that would remain invested on the parcel of jute for the time being from the date of production to the date of sale.

Mr. McDougall: If a man of Mr. George Morgan's business ability tells me that the total cost of distribution is so and so I would expect that the whole cost is included, but not profits or baling charges for export.

Mr. Khaitan: It does not represent middleman's profits.

Mr. McDougall: No.

Mr. Khaitan: Page 11. You say that each association shall limit or increase the output of each member *pro rata* according to the requirements. Even if your licensing system be successful I can quite understand

that limiting can be easily done but as regards increasing it there may be difficulties. Suppose you fix the price of jute at Rs. 60 per bale at which rate the cultivator will get Rs. 8 or Rs. 9 per maund in the mofussal. If at that time the price of rice be very much higher do you think the cultivator would easily agree to increase the area under jute cultivation at that fixed rate?

Mr. McDougall: No.

Mr. Khaitan: In these circumstances the price of jute may have to be increased.

Mr. McDougall: It is not inconceivable.

Mr. Khaitan: You would agree to the rate being increased during the season. I ask you what would happen in this case. This year the price is Rs. 60, and next year there is the prospect either of its becoming Rs. 40 or 80. The object of the scheme is to keep the price as uniform as possible. Now, in the circumstances that I am contemplating, the price of rice or linseed or sugarcane rises very high. Would you contemplate increasing the price of jute?

Mr. McDougall: I think it would be absolutely necessary. You cannot compel the cultivator at the point of the bayonet to produce jute.

Mr. Khaitan: You think that such circumstances would arise rather comparatively rarely.

Mr. McDougall: I think so. So far as I can understand the jute situation under normal conditions it is the best paying crop, and because of that I do not think from that point of view that there are likely to be difficulties. I contemplate, however, that it is not inconceivable that a higher price might have to be offered in order to get a greater area to come under jute.

Mr. Khaitan: If you wish to keep your prices as good as fixed you may have to extend or control the area.

Mr. McDougall: I won't be prepared to admit that at all.

Ch. Mukhtar Singh: I understand that there are two varieties of jute —one grown in swampy soil and the other on a bit of dried land, and that in the former nothing can be grown but jute.

Chairman: On certain lands nothing but jute can be grown.

Mr. Khaitan: A kind of house rice can be grown even on these swampy grounds.

Dr. Hyder: I have heard of rice growing under 4 ft. of water.

Sir T. Vijayaraghavacharya: Rice has been reaped in floods 3 ft. high.

Mr. McDougall: With regard to that I make no definite statement at all. The first gentleman whom I asked about the matter indicated to me that 80 per cent. of the land would grow nothing but jute. Another gentleman whom I consulted is a very well known member of the Civil Service, Mr. Nixon. I asked him what proportion of land will grow nothing but jute. He said it was very small, may be 5 per cent.

Mr. Khaitan: Such land is only 10 per cent.

Mr. McDougall: After seriously considering the situation Mr. Nixon wrote me to say that the maximum was 10 per cent.

Mr. Khaitan: As regards the constitution of the directorate you have already said that it is only a tentative scheme put forward by you. We will treat it as deleted.

Mr. McDougall: I would be agreeable to it with this proviso that it must be a really sound business organisation managed by the best business brains that the trade can produce.

Sir T. Vijayaraghavacharya: I do not propose to criticise your scheme. But I feel some difficulty about it. The Indian cultivator would certainly welcome a scheme under which he would get a fair and fixed price. Those of us who have land have suffered from fluctuations. As you say, the fact that jute is a monopoly makes it the easiest to deal with amongst any of the crops in India. In fait it is a world monopoly.

Mr. McDougall: So far as I am concerned and so far as I know the world produce, it is the only crop at this moment that I should be prepared to fight for—the only crop that I know of that is likely to lend itself to this form of control . . . . .

Sir T. Vijayaraghavacharya: I think yours is the first attempt to make an organisation for the purpose, and I think it deserves very careful consideration. Are you contemplating a corporation which will have the sole monopoly or a corporation like the Canadian Wheat Pool, which will just be a private corporation and stand on its own merits and not on legal powers?

Mr. McDougall: It will be constituted in a legal way with legal powers.

Sir T. Vijayaraghavacharya: You will give it a legal monopoly.

Mr. McDougall: Yes.

Sir T. Vijayaraghavacharya: Are there not difficulties in this connection—not that I think that thay will be insuperable? For one thing it interferes with the right of an individual to grow anything on his land without any interference from Government.

Mr. McDougall: Law is always interfering with the liberty of the subjects for the benefit of the whole.

Sir T. Vijayaraghavacharya: There is a peculiar feeling of sanctity with regard to land which makes it a little difficult. Supposing you wanted to restrict the area, don't you think it would be a matter almost extraordinarily difficult and productive of discontent to prevent men from growing or not growing jute for several years?

Mr. McDougall: That has been put forward to me as an insuperable difficulty. I cannot see such a case. If I come forward and guarantee the cultivator—let us say, Rs. 600 for 100 maunds of jute—he will think as follows: Under the fluctuating conditions to-day I am receiving Rs. 2 a maund, last year I received Rs. 200 for 100 maunds; the Corporation offers me for 80 per cent. of my supply Rs. 480. I do not believe for a moment that the cultivator will object to the restriction. We ourselves have been working out a scheme in England and Scotland for the last two years for the control of potatoes. Potatoe is a crop which fluctuates enormously—the production may be 4 tons an acre this year, next year it may be 7 tons. Potatoes also suffer from very bad keeping qualities. The basic principle of the scheme was that farmers would be compelled to produce less, but would receive a stabilised price. So far as limitation is concerned the principle is the same, and I am quite sure

that if you can produce a scheme that would enable the farmer to receive a good price, the cultivator in Bengal will be very glad to limit his output.

Sir T. Vijayaraghavacharya: Then there is the question of depriving the man the right to grow what he likes. In practical administration I visualise great practical difficulties in bringing the restriction into practice. There would be charges of corruption, favouritism. Assuming there are 9,000 jute growing villages if you have to restrict the area there would be a great deal of difficulty. There would be the complaint that powerful landowners were able to get a larger area for growing jute than the less powerful landowners.

Mr. McDougall: But in a co-operative organisation on which are representatives of the people I cannot see that in practice there will be any serious difficulty there at all. I know that the scheme will have to be well organised. All these difficulties can be faced, they are not insuperable. I know that they would not be insuperable in England or any other part of Europe except Russia of which I do not know anything.

Ch. Mukhtar Singh: Did they have any difficulty in the case of poppy?

Sir T. Vijayaraghavacharya: You may think of salt too. Poppy was a controlled crop from the beginning of time. You are accustomed to that control and you do not resent it.

Ch. Mukhtar Singh: Now they must be resenting it. There is a reduction in the area under poppy.

Sir T. Vijayaraghavacharya: Don't you think in practice there will be a great deal of discontent if you attempted restriction by force?

Dr. Hyder: Poppy was concentrated in 2 or 3 districts of U. P. and the manufacture of opium is concentrated at one place. If it had been permitted to be grown all over U. P. we would have been in trouble.

Sir T. Vijayaraghavacharya: I am thinking of the restriction which was attempted in Coimbatore District with reference to a particular kind of cotton crop. There was enormous complaint, it was given voice to in the legislature. I am trying to put forward difficulties which are likely to arise.

Mr. McDougall: I can very well imagine these difficulties. At the same time the benefits of the scheme are so great that I cannot conceive that the cultivator is likely to be concerned about being asked to restrict his output.

Sir T. Vijayaraghavacharya: A certain amount of education of the cultivator is necessary.

Mr. McDougall: Even though the cultivator is not educated according to your standard and mine, he has, I think, a lot of intelligence. He is just likely to realise the benefits of the scheme as myself.

Sir T. Vijayaraghavacharya: You give it a greater chance by introducing it as a voluntary corporation.

Mr. McDougall: I think it is utterly impossible.

Sir T. Vijayaraghavacharya: Why give it an artificial protection?

Mr. McDougall: I am perfectly certain that it will ultimately break down as a voluntary measure.

Sir T. Vijayaraghavacharya: If the corporation is composed of businessmen and offers a better price, the natural economic laws will operate and will make control possible.

Mr. McDougall: If I were a cultivator I should say yes to such a scheme as this. Provided you introduce legislation to compel all for the benefit of all I should say I am prepared to consider it. But if you are going to leave it to the free will of the people without introducing the necessary legal restrictions then we are going to be where we were. It is exceedingly dangerous and the result will be chaos.

Sir T. Vijayaraghavacharya: Imagine as a practical measure that it would be necessary to survey the whole of the jute growing area and have a sort of record as to who owns so much land under jute. Otherwise I cannot see how the restriction can be carried out.

Mr. McDougall: I should prefer to survey the whole area.

Mr. Ramdas Pantulu: I thought from the Government communiqué that they were thinking of restricting the jute area.

Sir T. Vijayaraghavacharya: We were not consulted about it, and I do not remember it. In view of the strong feeling of suspicion that exists won't it be represented as a measure with a sinister object?

Ch. Mukhtar Singh: Convince the ryot that it is in his interest and he will not resent it.

Mr. McDougall: I can assure you that if we had a similar situation in England there is not the slightest doubt that it would be in operation at once. I do not consider that there is any such insuperable difference between England and India as to make such a scheme impossible in this country.

Sir T. Vijayaraghavacharya: I am thinking of the political conditions.

Mr. Khaitan: Dr. N. C. Sen Gupta has introduced a Bill in the Bengal Legislative Council for the restriction of the cultivation of jute, which is still pending.

Mr. McDougall: If you restrict the cultivation of jute without guaranteeing the price, you are doing a wrong thing.

Sir T. Vijayaraghavacharya: The whole thing is dependent on a good price being assured.

Mr. McDougall: The only way you can assure the cultivator of a good price is to take the whole scheme or leave it. There is no half-way house.

Sir T. Vijayaraghavacharya: I see that the difficulties are more in practical administration. After all it is a very good thing for the man to get a good price in the long run; the farmer's appreciation of the good price and his knowing exactly what profits he would get next year would probably overcome all the difficulties. In the first few years there would be numerous difficulties.

Mr. McDougall: But there is less difficulty attached to it than in almost any other scheme with regard to limitation of output that I know of. You know that the best brains in the sugar trade have been trying

for the last five or six years to introduce a similar scheme in sugar. The difficulty there is not internal administration at all although that difficulty is just as great as it is here. It is all a question of international agreement. If you have to draw up a scheme of this kind by international agreement with half a dozen different nations whose costs of production vary and where many other items of national interest come in, your difficulties would be very great indeed. But here you have only to consider yourselves and it is so much similar because of it. Your administrative difficulties undoubtedly and the business difficulties are very considerable and you are tackling a big job, but I suggest to you that there is no difficulty that cannot be overcome if you are determined to do it. The results likely to be attained in this case are such that there will be an enormous benefit to the country.

Sir T. Vijayaraghavacharya: I admit that if any scheme of control were ever to be brought into operation jute is almost the only crop which for obvious reasons you can touch regarding price or other things.

Mr. McDougall: As a practical man I say it is the only crop I would touch at the present moment, but I would touch it without any doubt.

Sir T. Vijayaraghavacharya: I do feel some such system has got to come at some time or other.

Mr. McDougall: It is quite true that speculative profit will be eliminated, but at the same time if you make the position of the cultivator such as to assure him prosperity, then a far greater profit will arise to the City of Calcutta and to the interests there through the prosperity of the agriculturist.

Sir T. Vijayaraghavacharya: Of course you would have very great difficulties in constituting due control. I can see some difficulties in the proposal about the Jute Central Committee which is a very small organisation compared with this.

Mr. McDougall: Undoubtedly I know that you will have all sorts of wire-pulling.

Mr. Ramdas Pantulu: The Cotton Committee is merely an advisory committee.

Sir Purshotamdas Thakurdas: It makes no profit.

Sir T. Vijayaraghavacharya: In Cotton Committeas there is no difference of racial interests.

Mr. Ramdas Pantulu: Mr. McDougall is thinking of a scheme which will watch over the factory and he wants to invest this Committee with statutory powers.

Mr. McDougall: I should like to tell you that during the War I had to lock up some men.

Mr. Khaitan: I doubt whether the men would have to be sent to prison. Under Mr. McDougall's scheme a certain cultivator is required to sow a certain area under jute. If he sows more and if the jute is not taken up, what is to happen?

Sir T. Vijayaraghavacharya: I quite see that so long as you have a monopoly of buying, it is not necessary to make it an offence.

Chairman: If that is so, you have got to take some penal measures somewhere. Take the case of mills in Calcutta. You have got by legislation to enforce that they must take the jute only from the corporation and from no other source. I foresee difficulties in that; in the end you will have to enforce the rule and you will have to send the man to jail.

Mr. Khaitan: What I submit is that though there may be some penal provisions in the statute, I do not think you will have really to enforce them.

Chairman: That is more than I can say. At least it would certainly open the door to what you may call illicit trade, and therefore preventive measures have to be taken.

Mr. McDougall: Fortunately you are dealing with a crop that is very bulky. If we were dealing with opium or even tea, the position would be much more difficult. It is easy to slip a packet of tea into a small boat, but jute is a crop in which it is well nigh impossible to imagine that any illicit trade to any appreciable extent can be carried on because of its enormous bulk.

Chairman: It is not a question of its being carried on. You mean that if it is carried on, it will be readily detected? Then comes the question of sending some one to jail.

Mr. McDougall: I think probably you will find that it is not necessary to send any one to jail. The traders are licensed and they have to sign a certain agreement.

Chairman: Now the arrangement is that all jute goes to the local depot, it is then bought over from there and it finds its way to central depots. Therefore the system of what you call licensed dealers has practically disappeared.

Mr. McDougall: Why should the beparis not be licensed?

Chairman: They will be carrier—agents of the central organisation and therefore it is not a question of licensing them, because if anybody wants to do that work, he will be allowed to do it. According to your original scheme by which you contemplated that jute went out from the local depot to the bepari and through the bepari came back to the central depot, there was need for licensing as a trader, but now that need not arise. He may or may not be licensed simply as a carrying-agent.

Mr. McDougall: But why should he not be licensed as a carrying agent?

Chairman: That does not help you. Illicit trade may be stopped in jute because it is a bulky stuff and may be more readily caught, but as I envisage it, there would be opportunities for the growth of illicit trade.

Ch. Mukhtar Singh: I think not, because in every village there is a patwari.

Sir T. Vijayaraghavacharya: Not in Bengal.

Ch. Mukhtar Singh: At any rate there is a system by which the crop which is grown in every field is known.

Chairman: Not in Bengal.

Ch. Mukhtar Singh: How do you find the acreage under different crops?

Sir T. Vijayaraghavacharya: The figures in permanently settled provinces are worthless. As I view it, in jute fields having only one crop there is no possibility of illicit cultivation. To check the illicit cultivation will involve not only a survey but a staff which will go on inspecting all the fields. Suppose a farmer has to cultivate five acres, we have got to see that his cultivation does not extend to the 6th or 7th acre. I do visualise in the beginning that there would be a great deal of necessity for a staff. I think a survey is almost indispensable for practical administration, and once you have the survey, you have to have a staff to see that the thing is done. I imagine that when it is well known and has been in operation for some years, perhaps there may not be any necessity for the staff. I am only pointing out the difficulties.

Mr. McDougall: A survey would certainly be of great advantage.

Sir T. Vijayaraghavacharya: I certainly think that in principle it is very necessary and some such scheme will have to be devised some time.

Mr. McDougall: The sooner you do it the better.

Dr. Friederich: I think it should be the task of the managing committee of the local society to detect illicit cultivation.

Sir Purshotamdas Thakurdas: I was not present here in the morning and if you have already replied to any question you need not repeat the answer, but simply say that you have answered it. In the first instance I want to ask you what is the main motive of your scheme? Is it to improve the security from the banking point of view or is it a better return to the cultivator?

Mr. McDougall: The main motive is better return to the cultivator.

Sir Purshotamdas Thakurdas: Can you name any other scheme of a similar nature in any part of the world which has made it a reasonable success?

Mr. McDougall. No, except quinine in Java; that also is a monopoly crop.

Sir Purshotamdas Thakurdas: Java I understand, has more or less a sort of autocratic Government where things are ordered by the Dutch and have to be carried out by the people.

Mr. McDougall: That may be.

Sir Purshotamdas Thakurdas: Do you think conditions in India are anything like the conditions in Java and that things are as easy to carry through?

Mr. McDougall: I do not suggest that it is by any means easy to carry them through, but I suggest this for the benefit of the cultivator.

Sir Purshotamdas Thakurdas: Let me understand this point. The Committee which you have recommended is to consist of five buyers' representatives, five agricultural representatives, five middlemen's and one banking representative. They are to have all executive powers, including the power to fix price, etc. Can you indicate to us the rough outlines, which may be given in our report, of the basis on which the price should be fixed. The grower's representative will always say " 'X' rupees is too low" ', the buyer's representative will say trade is bad and the rate must be higher than that paid last year. The middleman does not count; he does not care so long as he gets his turnover. Have you

tried to ascertain from your informants as to what is approximately the price for growing jute?

Mr. McDougall: I have heard it estimated between Rs. 4 to Rs. 5.

Sir Purshotamdas Thakurdas: What do you think should be the average profit which should be allowed to the grower by such a corporation if it came to be started?

Mr. McDougall: That I am afraid I cannot tell you.

Sir Purshotamdas Thakurdas: On what basis would you like it to be settled? It will be a monster monopoly if it is erected with the help of legislation where the foreign buyers across the seas are to have a substantial voice, because you indicate that there are to be three representatives of overseas manufacturers. What do you think should be the minimum profit to be allowed to the Bengal cultivator?

Mr. McDougall: That I cannot tell you.

Sir Purshotamdas Thakurdas: Would you not advise us?

Mr. McDougall: I will not. I know nothing about the local conditions.

Sir Purshotamdas Thakurdas: But you have seen the standard of living of these people. Suppose I suggest to you that the cultivator should ask for Rs. 9 a maund where the cost of growing is Rs. 4/8. Would you call that exorbitant?

Mr. McDougall: A profit of 100 per cent. would appear to me to be a very excessive profit. If the trade will stand Rs. 9 a maund, I do not see why the cultivator should not get Rs. 9. But if the output is going to be seriously hurt by that price, the probability is that the cultivator will suffer very seriously.

Sir Purshotamdas Thakurdas: On what basis are the directorate to decide or judge this?

Mr. McDougall: I should say that this matter will have to receive very careful consideration. Statistics will have to be examined much more carefully than has been possible for me to examine them as to the average pre-war prices, as to all the conditions pertaining to the industry, etc., and it will have to be recognised that prices have to be fixed not on a monopoly basis which may ultimately kill the trade but on commonsense lines that will enable the cultivator to receive a fair profit. I should like to emphasize that if you are out for a monopoly that is going to forget all about world conditions but simply make huge profits, then your whole scheme will sooner or later end in disaster.

Sir Purshotamdas Thakurdas: Can you tell me what you think should be a fair profit to the cultivator? As you hesitated to give me a figure, I threw out a figure which has drawn you out. What sort of directorate could decide this question? Certainly not the sort of directorate which you indicate? Has there to be an enquiry beforehand by some persons who are not interested as sellers or buyers; can you suggest any line by which this can be settled?

Mr. McDougall: If I were in England, I think I should be prepared to make recommendations after thinking out things carefully. Here, not knowing the local conditions, I should say I very much prefer to leave it to you and to others who know the local conditions better. I want a fair Board that will be able to take all these considerations into account with an impartial Chairman.

Sir Purshotamdas Thakurdas: Anyway you would agree that the one body most interested in this and that should be considered most impartial would of course be the Legislature of the province with the Minister in charge?

Mr. McDougall: Undoubtedly.

Sir Purshotamdas Thakurdas: And you would agree that this question has to be settled first before any corporation is started.

Mr. McDougall: Yes.

Sir Purshotamdas Thakurdas: The fundamental to be decided is that, whatever the conditions, the minimum profit to the cultivator should be so much.

Mr. McDougall: I should be prepared to agree to that.

Sir Purshotamdas Thakurdas: You indicate several steps being taken before the corporation can start working. I understand from your paper that legislation is absolutely unavoidable and is intended to be taken from the very start. Then the growers have to be licensed, traders have to be licensed and I presume the exporters of jute also have to be licensed.

Mr. McDougall: Yes.

Sir Purshotamdas Thakurdas: In fact anything handling jute will have to be licensed.

Mr. McDougall: Yes.

Sir Purshotamdas Thakurdas: Buyers will have to be controlled to such an extent that if they do not make over their stocks to you prices have to be raised against them for a limited period as indicated in your paper. Then I presume that forward trade in jute has to be stopped.

Mr. McDougall: Yes.

Sir Purshotamdas Thakurdas: All these restrictions have been suggested for the benefit of the grower and it is of course a very good motive. I wonder whether you have been told of the experience in the Bombay Presidency between the years 1870 to 1878 of a similar legislation which was tried by the Government of Bombay and which is known and is famous as the 'Cotton Frauds' legislation. Sir Hugh Cocke may be able to let you have some literature which is all available in the reports of the Bombay Chamber of Commerce for the years 1870-78. The American War was on and Lancashire wanted good cotton. The cotton which went from India was indifferent and not up to the standard and orders came from Whitehall to the Government of India to the effect that measures should be taken to see that Lancashire got good cotton. Legislation was passed in Bombay (it was all official) that there would be a set of Inspectors all over the mofussil areas to prevent adulteration. Four years after this legislation was passed, every merchant handling cotton in the Bombay Presidency, whether European or Indian, kicked up such a row that within three years more the legislation had to be taken off. My point is that such measures of control, at any rate 40 or 50 years back, were liable to very serious abuse by petty officials in those areas. I do not know the mofussil areas of Bengal, nor do I know much about jute growing, but I wonder whether you have been told of the experiences of a century back.

Mr. McDougall: No, but at the same time I would ask you to remember that vast progress has been made in the world since those days. Our whole psychology with regard to trade and business generally has changed. We have got vast cartel schemes, monopoly schemes, which in those days were utterly impossible in practice. Accounting at that time was merely in its infancy. To-day the accounting profession and business control generally have become so much more practical, so much more perfect, that what was absolutely inconceivable in those days and would have most certainly broken down in utter confusion is now practical politics.

Sir Purshotamdas Thakurdas: You are now talking of the West-America. Can you say the same about things in the rural areas of India?

Mr. McDougall: Yes, I think I can. In those days it would have been impossible to set up your Growers' Associations with sufficient accounting experience behind them to make them reasonably perfect. It would have been impossible to set up the big corporations a matter of fact. I am quite sure that in considering this matter you must realise the vast progress that has been made throughout the world in handling all these great controls. Exactly the same thing applies to ordinary corporation activities, I mean corporations in the big cities, taking over water, tramways, etc., with benefit to the community and with reasonable chance of making them really sound organizations. In those days that would have been impossible. Take for instance the big milk combine in England which deals with, I think, something like 70 per cent. In the days you spoke about it was utterly impossible in practice, to-day it works like clock-work.

Dr. Hyder: Is it entirely a combine of producers or are there consumers in it?

Mr. McDougall: The milk cartel is not a combine of producers though there are a very large number of producer shareholders. The price is fixed by a Board.

Dr. Hyder: I only wanted to know whether in the cartel there is a very good percentage of consumers.

Mr. McDougall: There are not.

Dr. Hyder: Is it desirable to have in the corporation warring interests, the buyers and the producers?

Mr. McDougall: I do not think the stability of the milk control would in any way be hurt.

Dr. Hyder: I quite agree that we can have monopolies, but it must consist of one kind of people only, and the considerations that are now being put forward by the Vice-Chairman lead to the position I mentioned that if we push forward one way and the others push forward the other way, it will lead us nowhere.

Mr. McDougall: I cannot agree.

Sir Purshotamdas Thakurdas: Mr. McDougall has said that there are difficulties, but if you want to make for the salvation of the Bengal

cultivator, these have to be got over. Although this is a bold scheme. I think it has in it the germs of something very useful. You say:—

> "The retail price of the manufactured article would not be influenced to any appreciable extent by the difference of, say, four rupees per maund on the raw material."

Have you arrived at this conclusion after consulting those who are interested in the manufactured article?

Mr. McDougall: I have already explained to the Committee this morning that unfortunately I had very little chance of meeting any of the traders. I was searching almost in the dark; the only representative of the manufacturing interest whom I met was Sir Archy Birkmyre who is one of your leading manufacturers, and of course I did not consult him about the scheme. I thought it was hardly policy; I was just beginning to think about it then, but I put to him some leading questions. I said to him: "It is a terrible position in which the jute grower is in now, he is getting a price very much below his cost of production. This is absolute ruin to him. Do you think that the difference of Rs. 3 or Rs. 4 a maund would appreciably affect the demand for the manufactured article?" I remember him very distinctly saying 'not a bit.' As a matter of fact, if he had said 'yes', I doubt if my scheme would have been produced.

Sir Purshotamdas Thakurdas: Regarding the directorate, you suggest that there should be three representatives of the Overseas manufacturers. I wonder whether, when a country devises a scheme like this in the interests of its cultivator, it should give a voice to non-nationals in the scheme.

Mr. McDougall: The reason why I thought about the Overseas manufacturers is that after all the producer is dependent on the overseas demand. I was just searching after something. Then it struck me that the whole of Europe, England being users of jute, would hardly combine, and that England being a considerable consumer would also want a representative here and that if we had got to work properly, it was just as well to take all the interests into consideration. Provided you safeguard the great majority of interests, these men are doing you no harm, they would actually do you good by keeping in touch with the world market.

Mr. McDougall: My idea was to get some advantage to the country at large and it is in your interests that you should keep yourself in touch with the people of those countries who are consuming your jute.

Sir Purshotamdas Thakurdas: It would amount to the same thing. You would like the Government which puts up the money for this Corporation would see that the Directors should keep in touch with regard to the demand for manufactured articles of jute in the world.

Mr. McDougall: I think it would be useful. The more jute that is consumed the better it is for India.

Sir Purshotamdas Thakurdas: The Indian Jute Mills Association are the consumers of raw jute in this country. Otherwise the interests of items (1) and (2) under your scheme for the constitution of the Directorate are quite identical.

Mr. McDougall: But their interests are different. The Indian manufacturer, the European manufacturer and the American manufacturer are all in direct competition. All want to manufacture jute goods.

Sir Purshotamdas Thakurdas: How do you say that? If the Directorate fix a price of Rs. 7 per maund, that will be the price at which jute will be available for sale in India and abroad.

Mr. McDougall: Their interests with regard to the price of raw jute are the same undoubtedly but after all there is a tremendous amount of trade rivalry between them.

Sir Purshotamdas Thakurdas: There may no doubt be competition in the efficiency of manufactured products but not in the price of raw jute.

Mr. McDougall: I agree.

Sir Purshotamdas Thakurdas: And it is not necessary in an Association of this nature to give representation to non-nationals.

Chairman: I fully see that point. In fact your argument is according to Mr. McDougall's own views that this body will not fix the price of jute.

Sir Purshotamdas Thakurdas: I have only one more question to ask. It may be construed to be of a somewhat delicate nature. You, of course, must be aware that at the present moment in the political sphere there are questions of safeguard looming large for vested interests of British Commerce in India. The chief consumer of Indian raw jute in India is, of course, the jute mills the vast majority of which are under European management. Do you think that if a scheme like this is set up it would disturb the Britisher's vested interests with regard to jute trade in this country?

Mr. McDougall: Nobody could say so.

Banking facilities by credit co-operation for non-agriculturists.

(By Dr. A. Friederich.)

In European countries experience has proved that co-operative credit societies are the most suitable banking agencies not only for agriculturists but for all middle class and working people. In our paper 'Financing the current needs of agriculture' we have recommended that agricultural credit societies should not confine the membership to a special creed, caste or calling, to agriculturists or a special class of them but include artisans, small traders, officials, etc. Experience in Germany has been that no advantage has been gained by establishing separate co-operative credit societies for each profession or trade. (Bengal report, page 252, recommendation 151). Special societies for salary earners are in our opinion not objectionable if these societies are looked upon as *thrift* societies for collecting and investing the savings of their members (Bombay, page 168). We, however, advocate starting societies according to the principle outlined above. There is, undoubtedly, an urgent need for financing artisans, cottage industries, traders and shopkeepers. People living in

the country, including rural industries should receive the financial assistance required by them from local credit societies. They, on the other hand, should accommodate themselves to the special requirements of non-agriculturists. Where the latter predominate credit societies of the "Schulze-Delitzsch" type should be established where it has not already been done and where required. We fully agree to the considerations laid down in the Punjab Report (pages 103, 104, paragraphs 153 and 154). Smaller towns and even cities offer a large field for co-operative enterprize. Co-operative credit societies should especially be started at all places where commercial banks do not enter and at other places where banking facilities for middle class people and the so-called 'small men' are not sufficient or suitable. The statistics in the Punjab report (page 103, paragraph 153) indicate the lack of banking facilities in towns with a population below 10,000. We have not seen the corresponding figures for the other provinces of British India.

Various reports have clearly indicated (*a*) the defects of financing small traders and industrialists by money-lenders (including wholesale dealers and merchants) and (*b*) the disinclination of commercial banks to deal with this class of people who are, generally speaking, not able to supply adequate substantial securities for credits (*vide* Bihar and Orissa report, page 91, paragraph 173). The greatest care is without doubt required in dealing with these people. On the other hand co-operative credit societies can on sound lines serve the financial requirements of traders and small industrialists in so far as they are of good character and repaying capacity. It is, however, impossible to help people who are hopelessly in debt.

Non-agricultural credit societies especially urban banks have developed in a satisfactory manner in most provinces of India. The Bombay report (page 164) states that from the point of view of banking the societies which aim at doing banking business in general, particularly for traders, entrepreneurs and artisans, are the most important. "These banks do all kinds of banking business, that is, they give loans, credits and overdrafts and discount bills. They command good credit and have raised a large amount of capital locally. The definite aim of these banks is to try to do for the small trader and the small merchant what the bigger banks are doing for the big trader and the big merchant." (Bombay report, pages 164, 165). Urban credit societies in India have, nearly everywhere, inspired confidence in the investing public and they can therefore attract considerable deposits. In this respect they widely differ from the agricultural credit societies. Urban co-operative banks have besides built up sufficient share capital and reserves. We fully endorse this policy. We would, however, emphasize the necessity of safeguarding the co-operative character of these societies in order to prevent them becoming of a capitalistic type.

Shall urban banks do *commercial* banking? There is no objection against doing all kinds of banking business in so far as it is required by the members with the exception of futures and lending money on goods in stock. Banking for artisans, traders, etc., is quite different from banking for agriculturists. Money put in trade and commerce can usually be turned over much more quickly than in agriculture. Money demand

and supply are not bound to the periods of seed and crop. There is no direct dependence upon meteorological conditions. Receipts and expenditure are usually distributed all over the year. This special feature requires that urban banks should do modern, advanced banking business and deal with their members preferably on current account. This has been fully recognised nearly everywhere. The granting of cash credits, dealing in cheques, collection and discounting inland bills, clearing, remittance business have been promoted and should be furthered as far as possible where it has not yet been done in the past.

Urban credit societies have the advantage of getting a larger percentage of *literate* people who are useful for both business and management.

Some lines on which the future development of non-agricultural credit societies, especially urban banks, should be carried on where it has not yet been done may be emphasized. It may be mentioned that the suggestions except some small modifications with regard to Indian conditions have been experienced in the German urban co-operative credit movement :—

1. *Working sphere.*—Development of larger urban societies should be aimed at; restrictions with regard to the area of operation may, however, be considered in bigger towns.

2. *Management.*—It is necessary to have a well trained banker as manager and men of integrity forming the Managing Committee (*vide* Assam report, page 142, paragraph 147).

Fixing credits *for each member* should be, as we have already pointed out in our paper "Financing the current needs of agriculture" a matter for the Managing Committee in accordance with a special 'Supervising Board'. The general meeting should (*a*) fix the *maximum* credit limit within which credits may be fixed by the Managing Committee and Supervising Board, and (*b*) sanction credits to members of the Managing Committee and the Supervising Board.

3. *Supervising Board.*—We refer to our paper 'Financing the current needs of agriculture' (I. primary, local societies, point 2c) and recommend strongly that such a Board consisting of 3—6 members should be elected by the General Meeting of each urban society and that the Co-operative Societies Act, 1912, should accordingly be amended. It may be mentioned that the Maclagan Committee on co-operation favours our proposal (*vide* report, page 22, paragraph 35).

4. *Liability.*—We share on principle the opinion of the leaders of the Indian Co-operative Movement, that non-agricultural credit societies 'urban banks', shall be built up on a limited liability basis. It is the most expedient legal form with regard to the special feature of urban co-operative societies. On the other hand we are advocating a broadening of the limited liability in order to secure to the creditors especially the depositors further safeguards in case of a failure. We propose that the limited liability should be amended into an *additional* liability at least equal to the fixed amount of the subscribed shares. Up to now the limited liability is being restricted by the subscribed shares. Small shares have in consequence small liability. Our proposal is made in accordance with the German Co-operative Societies Act, 1889. The members of the societies with limited liability in Germany have usually to take up an

additional reserve liability of about 2—10 times the subscribed shares. Where the share is fixed relatively small, the reserve liability is fixed relatively high, in order to create a sound business basis. Limited liability is equal to a surety taken up with each share subscribed by a member. This kind of limited liability is a very good safeguard for creditors in case of a brankruptcy and therefore is calculated to enhance the confidence of the investing public.

5. *Granting credits.*—(*a*) We agree with the Bombay Committee (*vide* page 165, 2nd section) that urban banks should not be allowed to finance joint stock concerns.

(*b*) With regard to granting credits to bigger men, we are in favour of restrictions being laid down in the Bye-Laws. Larger credits well secured should on no condition exceed 50 per cent. of share capital and reserves.

(*c*) We have no objection to the suggestion that urban primary *non-credit* societies should be financed by urban banks. This depends on the special conditions. An agreement should in this respect be made with the respective Central Co-operative Bank (Bombay, page 165, 3rd section).

(*d*) We think it necessary that urban banks should be permitted to advance money on the security of gold and silver, on the former up to about 75 per cent., on the latter up to about 50 per cent. of the sale value. The greatest care is however required in valuing and holding in custody pledged gold and silver.

(*e*) We accept the view of the Bengal Committee that credit should not be advanced against goods in stock. (Bengal, page 256, recommendation 191 and Bombay, page 248, recommendation 129.) We have, however, no objection to granting credits on authorised first class warehouse receipts.

(*f*) It must be a rule that co-operative credit societies are not allowed to grant clean credits, *i.e.*, credits without surety or any other security.

(*g*) Credit on sureties should only be given up to a certain amount. The limit should be fixed at the general meeting. It should only be given to members who are wellknown to the Managing Committee and the Supervising Board. Otherwise a tangible marketable security or collateral mortgage should be taken.

(*h*) Urban co-operative credit societies should not lock up their deposits in long-term credits, otherwise their solvency might be endangered (Bombay report, page 166, 2nd section).

We have, however, no objection to societies with ample deposits granting so-called intermediate credit up to about 50 per cent. of the share capital and 75 per cent. of their long-term deposits, in conformity with the periods for their repayment.

6. *Balancing centre.*—In so far as possible the central co-operative banks should be the balancing centres for non-agricultural urban credit societies. Where urban banks are stronger than central banks or where the latter do not meet their special requirements they should be allowed to deal directly with the Provincial Co-operative Bank.

Every endeavour should be made by the Managing Committee of an urban bank to ensure at any time its liquidity. Urban banks should therefore:—

(*a*) keep sufficient cash balance with a central or provincial bank,

(*b*) have discount or rediscount facilities with the balancing centre.

It may be necessary for large urban credit societies to keep accounts with commercial banks especially with regard to discounting, clearing, and remittance business. The approval of the Registrar should, however, be obtained (Bengal report, page 158, paragraph 291).

7. *Audit.*—Urban societies should be affiliated to the proposed District Auditing Unions. They should keep well trained and experienced people for audit, supervision and inspection of urban non-agricultural credit societies. (*Vide* Punjab report, page 159, recommendation 14 and Central Provinces report, page 408, recommendation 107).

The managers of urban credit societies within a District should meet several times a year in order to discuss actual subjects of the co-operative work.

Long-term credit.—It should be considered whether the co-operative land mortgage banks proposed in another paper are in a financial position to advance to a smaller extent long-term mortgage credits to artisans, cottage industries, and traders or whether it is necessary to form special District Mortgage banks for long-term credit to the above mentioned people; Government may assist in supplying the requisite share capital.

General remarks.—The financing of artisans, cottage industries, traders and shopkeepers requires the greatest care. On the other hand every endeavour in this direction should be made. The Provincial Industries Departments should make themselves responsible for technical teaching and training required in the various cottage industries (Punjab report, page 159, recommendation 14).

The endeavour which has been made in order to organise the supply of raw materials to cottage industries and artisans should be continued. Experience in Germany has been that the co-operative work should be confined to the supply of the most important raw materials in order to be able to buy in bulk.

Great difficulties will have to be encountered in organising the sale of the produce of cottage industries, etc. Nevertheless the utmost should be done in this direction too.

Chairman: We shall now take up for consideration the other paper on "Banking facilities by credit co-operation for non-agriculturists" by Dr. Friederich. I am quite in substantial agreement with this paper and I hope other members also are.

Dr. Friederich: I wish to make a few verbal alterations in my paper to clear up the position. On page 2 of my paper I have said that "Receipts and expenditure *ought to be normally* distributed all over the year". This should read as follows:—"Receipts and expenditure *are usually* distributed all over the year". I am speaking from the standpoint of the artisans and I want to make clear the difference between financial necessities of the agriculturists and the artisans. Agriculture depends wholly on crop due at certain times but artisans have usually receipts and expenditure throughout the year.

Later on on the same page I say "It may be mentioned that the suggestions have been experienced in the German Urban Co-operative Credit Movement". This should read as follows:—"It may be mentioned that the suggestions except some small modifications with regard to Indian conditions have been experienced in the German Urban Co-operative Credit Movement".

Then on page (3) under point 4 I have said "The members of the societies with limited liability in Germany have to take up an additional reserve liability of about 2 to 10 times the subscribed shares". I mentioned the legal prescription that liability has to be at least equal to the share but in practice most societies usually fix the liability at 2 to 10 times the share capital. To make it clear it may be added: have "usually" to take up.

Mr. Mukhtar Singh: You say later on "It is, however, impossible to help people who are hopelessly in debt". Cannot you devise some means by which raw material could be supplied to these people and in that way they may be relieved of their debt?

Dr. Friederich: I myself have advocated that in the penultimate paragraph of my paper where I say that "the endeavour which has been made in order to organise the supply of raw materials to cottage industries and artisans should be continued".

Mr. Mukhtar Singh: On page (5) you say "The Provincial Industries Departments should make themselves responsible for technical teaching and training required in the various cottage industries". Would you have any objection to include supply of new patterns, advertising and finding out markets outside"?

Dr. Friederich: I think it is quite unnecessary to include it here. Here I have only referred to a special recommendation of the Punjab Committee. In my opinion there is a certain lack of technical teaching and training.

Chairman: Would not the last paragraph meet with your (Mr. Mukhtar Singh) point? As I read the note I do not find any particular hiatus in the whole of it.

Mr. Devadhar: You say "Experience in Germany has been that no advantage has been gained by establishing separate co-operative credit societies for each profession or trade" and have referred to the Bengal Report page 252 recommendation No. 151.

Dr. Friederich: I did not only refer in order to strengthen my points but I wanted only to refer to statements of Provincial reports and to express my view.

Chairman: Dr. Friederich has referred to the recommendation and then has given his own view later on.

Mr. Devadhar: Your idea is that special societies for the different castes and creeds should not be started?

Dr. Friederich: Yes.

Chairman: Is there any use in pursuing this point Mr. Devadhar?

Mr. Devadhar: I want to know whether Dr. Friederich will advocate any solution to this problem. Would it not be an advantage, apart from his view, to bring about co-operation with such people whose common object is to secure articles at cheaper rates?

Chairman: But he has already expressed his view that they should all be brought under one co-operative society.

Dr. Friederich: I see the difficulties in this country, but nevertheless I am not convinced of the need for separate societies.

Mr. Ramdas Pantulu: There is one point with regard to local societies in Madras with regard to hand-loom weaving which is an important industry in Madras. We have found it necessary to keep the weavers' societies separate.

Chairman: I think we can discuss these details among ourselves.

Dr. Friederich: I might add that I made this recommendation because of the success which the movement has attained in Germany where there are no separate societies.

Mr. Devadhar: May I know whether you are in favour of giving the power to discount inland trade bills to co-operative banks?

Dr. Friederich: I have made the point quite clear on page (5) of my note where I have said that "it may be necessary for large urban credit societies to keep accounts with commercial banks especially with regard to discounting, clearing, and remittance business. The approval of the Registrar should, however, be obtained".

Mr. Devadhar: Then I take it that it is a legitimate function of co-operative banks to perform?

Dr. Friederich: Yes.

Mr. Devadhar: I notice you have agreed with the principle of having limited liability societies for non-agricultural credit. May I ask what you propose to do with the societies which are already in existence based on the principle of unlimited liability?

Dr. Friederich: In cases where there are urban societies which include all kinds of professions then I should recommend you to transform them into limited liability societies.

Mr. Devadhar: If we think that the essence of co-operation lies in building of personal credit, don't you take away by this recommendation the opportunities of building up personal credit of people in urban areas?

Dr. Friederich: You are in the starting stage, and it may happen, as it has happened in other countries, that urban societies may fail. In case you have such a failure depositors of such urban banks may lose money, and everywhere you will hear it said, 'This was a society with a limited liability, and depositors have lost their money'. In order to prevent this and to secure the depositor in case of failure I recommended on page 3 the special kind of limited liability. You have perhaps a share capital and reserves amounting to 20 per cent. of the working capital, and in case you limit the liability to 4 times the share capital, you get a guarantee of about 80 per cent. of the whole working capital. If there is a loss of 40 per cent. of the working capital the whole of it will be covered. It is always useful to have this kind of limited liability.

Mr. Ramdas Pantulu: It is what we call ultimate contributory liability. It comes in only at the time of liquidation.

Mr. Devadhar: Page 4 (*d*). You have made a recommendation that urban banks should be permitted to advance money on gold or silver. You would give this privilege to all urban banks irrespective of their position and location.

Dr. Friederich: Only to urban banks which are managed very well: not to all. I think this is a necessity in your country.

Mr. Devadhar: I realise that. At a conference in Nasik District I heard a man telling me in a public meeting of co-operators that he could not get a loan of Rs. 25 on ten tolas of gold. I fully see the usefulness of such a proposal. You would like to say that such a thing should be done in places where there is sufficient provision for safeguarding the gold and silver.

Chairman: It follows from efficient management. If there are no arrangements for safe custody, they should not do it.

Dr. Friederich: I quite agree.

Mr. Devadhar: In our recommendations we shall have to make this clear.

Chairman: Surely we are not going to make unreasonable recommendations.

Mr. Roy: On page 1 you speak of financing small traders and industries. Would you define 'small traders and industries'.

Dr. Friederich: I do not like to define English words because English is not my language. I wanted to include all non-agriculturists.

Mr. Roy: What is the maximum you propose should be advanced to them?

Dr. Friederich: That depends on the borrowing capacity of the people, and the borrowing capacity must be estimated by the Managing Committee and, in case the proposal with regard to a supervising board is accepted, by the supervising board too. That is a matter of management, and these urban banks must be managed on business lines.

Mr. Roy: Would they not be competing with other joint stock banks?

Dr. Friederich: I do not think so because these kinds of people have, in my opinion, been neglected rather to a large extent by commercial banks. Only money lenders and sometimes the indigenous bankers have been the banking agencies for these people.

Mr. Roy: Cannot their interests be served by co-operative credit societies which finance agriculturists?

Chairman: This is another class of co-operative societies. These are mostly in urban centres.

Mr. Roy: He says they will all be limited banks.

Chairman: Under the present Act there is provision for co-operative credit societies on a limited liability basis.

Mr. Roy: There must be some maximum amount that could be lent. Otherwise they would compete with joint stock banks.

Chairman: There will be no joint stock banks in the places where these are contemplated.

Mr. Roy: Only small loans of say Rs. 100 to small traders.

Chairman: Yes.

In conclusion, we would wish to record a few general observations. We much regret that time did not permit of the Committee discussing their conclusions with us. In justice to ourselves, we must explain that the views we have outlined in our memorandum are based on the impressions which we gained during a hurried tour throughout a part of India only. In the course of that tour, we visited 5 Provinces. In 4 of them—Bombay, Madras, Bengal, and the United Provinces—we were able to do little more than meet the Registrars of Co-operative Societies, some of the honorary leaders of the Co-operative Movement and a few managers of banks. In the Punjab, we were more fortunate. We spent 8 days in that Province and were able to examine the working of many Primary Societies of various kinds—credit, better farming, land consolidation and marketing.

We have carefully studied the Reports of the Provincial Banking Committees and the evidence given before the Central Committee, and the Report of the Royal Commission on Agriculture in India. As the ground has, we think, been fully covered in these documents, we have thought it advisable to confine our observations to what are, in our opinion, the major defects from which the Co-operative movement suffers and the major hindrances to its future development. The defects are technical, defects within the organisation itself and its lack of any connection with a proper marketing organisation. The hindrances are the poverty and the illiteracy of the cultivator.

All the evidence on the subject goes to show that in many Provinces technical defects are still too apparent. We suggest the appointment of banking and accounting experts to the staff of Registrars as the simplest and most effective method of removing them. Even if the leaders of the movement had the time to devote to harassing details, it would be unprofitable to use them in this way. Their energies can be far better utilised in the effort to cut new paths through the jungle of inertia which impedes progress.

We have endeavoured to explain what a proper system of marketing would mean to India. We have not regarded it as our duty to fill in details and indeed, with our limited experience, we should be doing a great disservice if we attempted to do so but of the truth of the main proposition that no progress can be made in the marketing of cultivator's produce which will be of any substantial benefit to him until a Marketing Board is set up we have no doubt. We would urge that a thoroughly representative Board should be established on the lines we have suggested with as little delay as possible.

We were profoundly impressed by the character of the cultivators whom we met. No country possesses better material on which to build a great civilisation. But we were also profoundly impressed by what there is still to be done to improve their economic position and by the extent of the failure of the Co-operative Movement in that direction, in spite of the

good work that has been done by Co-operators. That failure, in our view, has been due to failure to realise that credit organisations alone can never provide an effective remedy for the indebtedness of the cultivator. His position can only be improved if the full force of the Co-operative Movement is brought to bear on him at every point—in the sphere of education, of better living, of better farming and of marketing. There will be no limit to the results which can be achieved if the same enthusiasm is shown in promoting development in these ways as has been shown in developing the credit movement.

It has been suggested that in discussing the economic position of the cultivator we have gone outside our terms of reference. From that view we must emphatically dissent. In our view, efficient banking is merely an aid to economic progress. No improvement in the banking system of a country which is so predominently agricultural as India can achieve anything if the foundations of the whole economic organisation the welfare of the cultivating classes—are neglected. It is for this reason that we feel that the suggestions we have made or the improvement of the economic position of the cultivator require neither justification nor apology.

In the Report of the Royal Commission on Agriculture we find the following statement: "If the inertia of centuries is to be overcome, it is essential that all the resources at the disposal of the State should be brought to bear on the problem of rural uplift". It is the imperative duty of the State to act on this advice. Something more than lip service is required. A determined effort can alone bring that problem which, in our view, is the greatest that confronts India, within measureable distance of solution.

A. P. McDOUGALL.

A. FRIEDERICH.

Chairman: On my own behalf and on behalf of the Committee I thank you for having taken all the trouble to come to this country and for kindly giving us the benefit of your advice. We had most valuable discussions extending over several days over the four papers you were kind enough to place before us, and whatever our conclusions may be in regard to these papers, let me assure you that we value very highly the advice you have placed before us, and we also value the discussions which have taken place between you and the members of the Committee. As this is the last occasion on which I understand we shall have the pleasure of meeting you, I take the opportunity of thanking you once again on my own behalf and on behalf of my Committee.

Mr. McDougall: I thank you very much indeed for the kind words you have used, and I can assure you that it has been a great pleasure to us. I shall look forward, and I am sure my colleague will look forward, to our visit to India in the years before us with very great satisfaction and pleasure. We shall remember the many friends we have made, we shall remember your very great kindness and hospitality, and I am quite sure that we shall, both of us, leave India with the best recollections of your country. We have endeavoured to give you our views, but it has not altogether been an easy matter: we unfortunately did not see as much of the co-operative movement, as much of the land, as much of the peasant, as we should have liked. One word with regard to the cultivator—he will remain in my heart forever. You have got a fine peasant.

Dr. Friederich: It gives me very great pleasure to have had the opportunity to come out to India, especially because I knew that you have started in India co-operative societies according to our Raiffeisen model, and I was very eager to see these copies of our societies and to study the special conditions in India. It is in fact impossible to copy the co-operative system of another country, but yet the co-operative system is such a kind of association that it can accommodate itself to any kind of economy. And so I have endeavoured to give recommendations in order to accommodate your co-operative system to the special conditions of India. But I do not know your conditions as well as you do, and perhaps some of my recommendations may not appeal to you, but nevertheless I have endeavoured to do my duty and to give the best I could give you.

APPENDIX.

Mr. Manu Subedar's scheme referred to at page 763 of this Volume.

The examination of the position of foreign banks in India has revealed the enormous difficulties of any Indian enterprise operating successfully against them in the field of foreign trade. Great humiliation at the present position is, however, being felt by Indians, and various remedies have been suggested. While not disparaging any of the other remedies which have been suggested, I want to put forward for the consideration of the Committee a constructive proposal in its full form. This has never been done. Members of the Committee have only been able to guess at the scheme from isolated questions asked of the witnesses and of the Foreign Experts. I would, therefore, request them to examine the scheme as a whole and not to pick out any particular part of it and judge it by that. In my opinion the main objection to the foreign institutions is that they are foreign. The position may be looked at by any particular critic from the point of view of merchants engaged in import and export trade, or from the point of view of the personnel of these institutions, or from the point of view of the profits of the trade which go to foreign institutions, or from the point of view of Indian money being deposited in foreign institutions. The feeling of intolerance against these institutions has been fed from many aspects. Whether the sort of co-operation, which I am suggesting, will take away the feeling of humiliation or intolerance and will satisfy Indian aspirations desiring to have a share in the business, requires a close consideration after the whole picture has been completed.

Great apprehensions have been felt in the Indian mind at the existing situation and these will not be allayed until something serious is done. The facts to study about the existing situation in detail are the number and growth of foreign banks in India in the last fifteen years, the growth of their deposits from about Rs. 10 crores to about Rs. 75 crores, and not only in the monopoly which they have set up in the financing of foreign trade, but the serious competition which they are offering for internal trade, where they have penetrated more and more (including the acquisition of Indian banking institutions). Their identification with foreign interests in this country and their unfriendly attitude against Indian trade including banking, insurance and shipping, are all facts weighing heavily with Indian public opinion, which is demanding radical remedies. The hostility is likely to grow more on the basis of all remedies involving rivalry and competition, and possibly bitterness through loss to any Indian institution, which may be set up. Foreign banking interests in India are likely to suffer a lot more in the long run by leaving the situation as it is, than by anticipating it and agreeing to work on the lines of equal participation and equal status.

The proposal is that those foreign banks, in which the Indian business constitutes a fair or considerable portion of the total business, should be induced to register themselves in India with rupee capital. In this event they should offer a substantial share of their capital to the Indian investor in the form of shares or stock and such share should not be less than 51 per cent. They should have, on their Board, Indian directors in proportion to the holding of capital by Indians in the enterprise. The freedom of such institutions to do any and all kinds of banking business in India should be unrestricted.

In order to give a substantial inducement to these Banks to convert themselves into Indian Companies, the following measures should be taken:

1. It should not be lawful for any natural born Indian person or any company registered under Indian law, to deposit their money with any bank not registered under Indian law.

2. Only such banks as are registered under Indian law should be empowered to open branches, wherever they like in India. No foreign bank should be allowed to open branches at any place located inland outside the municipal limits of the ports. All foreign banks, who have existing branches located outside the municipal limits of the ports, should be obliged to remove these branches within two years after the date of the passing of the Bank Act.

3. No bank registered in India should be controlled by any foreign person, or corporation or bank, and it should be obligatory on the directors of banks registered in India to file with the Registrar a periodical declaration that to the best of their knowledge and belief the controlling interest in their institution has not passed to any foreign person or corporation.

4. Only banks registered in India should be eligible for rediscount and other facilities by the Reserve Bank.

The advantages of the proposal.

1. Indian aspiration "to get a look in" in the foreign exchange business would be satisfied and a new and safe field would be opened for Indian investors in bank shares, the quotation of which would become a feature of the Indian stock exchange.

2. In the matter of personnel and worldwide organization, India would forthwith get amongst her banking institutions well-organised enterprises, of which any country might be proud.

3. The complaint with regard to lack of touch between these banks and their Indian customer will very largely disappear. Through the Directors as well as through the younger Indians, who will be afforded a reasonable opportunity of training, dealing in foreign exchange, which it is now complained is a closed book to Indians, will be no longer so.

4. These institutions, against which there is a lot of hostility and intolerance directed at present, would be entrenches in strong and safe position on the principle of "joining hands", or honourable partnership and of co-operation.

5. The business of institutions registering themselves in India under this scheme would not only remain absolutely untouched, but would materially increase through the transfer of deposits, which are at present placed with institutions whose business in India is not large enough to justify an expectation that they will register here.

6. There will be the least amount of breach with the past, and while satisfying Indian sentiment, banking facilities will not be seriously curtailed for trade.

7. The Indian stockholders will share in the profit by way of dividend and the Indian Government will gain the income-tax. The institutions themselves would, however, profit on account of the lower scale of income-tax charges in India compared with the United Kingdom and other places.

Disadvantages.

1. Inconvenience will be caused to those institutions, who do not desire to register themselves in this country. Such institutions will have to secure some working capital from their own country, which will be a great advantage to India, or, in the alternative, borrow money from banking institutions in India and not from the public.

2. The question of control, *i.e.*, 51 per cent. Indian holding, may be unacceptable for some of these institutions, which would otherwise be prepared to register under the Indian law with rupee capital.

3. A certain amount of cost would have to be incurred in the process of conversion and a careful valuation will have to be made with regard to shares or stock offered to the Indian public.

4. The Indian and foreign Register of shares would have to be kept separately, but as the total issue of shares would be large and as they may find quotations not only on the Indian stock exchange but in London and other places, no insuperable difficulty need arise.

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